

UNITED STATES BANKRUPTCY COURT

SOUTHERN DISTRICT OF NEW YORK

Case No. 08-13555

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In the Matter of:

LEHMAN BROTHERS HOLDINGS, INC., et al.

Debtors.

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United States Bankruptcy Court

One Bowling Green

New York, New York

September 19, 2008

4:36 PM

B E F O R E:

HON. JAMES M. PECK

U.S. BANKRUPTCY JUDGE

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1
2 HEARING re Debtor's Motion for an Order Pursuant to Section 105
3 of the Bankruptcy Code Confirming Status of Citibank Clearing
4 Advances

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6 HEARING re Debtor's Motion to (a) Schedule a Sale Hearing; (b)
7 Establish Sales Procedures; (c) Approve a Breakup Fee; and (d)
8 Approve the Sale of the Purchased Assets and the Assumption and
9 Assignment of Contracts Relating to the Purchased Assets

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25 Transcribed by: Lisa Bar-Leib

1 determination being made in the order with respect to the
2 validity of the guaranties. There is no provision in the order
3 with respect to setoffs. Your Honor, we would rest on the
4 motion and request that the relief be granted.

5 THE COURT: There are no objections that have been
6 filed but this was an emergency motion. The courtroom is
7 packed. This is, for all practical purposes, a clone of the
8 very same relief that was granted the other day in favor of
9 JPMorgan Chase. Let me just verify that there are no
10 objections. Mr. Despins?

11 MR. DESPINS: Good afternoon, Your Honor. Luc
12 Despins with Milbank Tweed with my partner Dennis Dunne and
13 also Paul Aronson. Could we have -- not to indispose counsel
14 but could we have until the -- just an hour while the other
15 matter is proceeding so that we can confer with counsel just to
16 make sure that everything is not problematic? We don't think
17 there will be a problem, Your Honor, but we just would like a
18 little bit of time to --

19 THE COURT: Well, candidly, the reason that we're
20 doing this now is to dispose of something that was presumed to
21 be noncontroversial.

22 MR. DESPINS: And I think --

23 THE COURT: There's nothing that you've said that
24 tells me that it is controversial. But what I'm going to do is
25 approve it subject to your review of the form of order to

1 satisfy yourself that the relief being granted to Citibank is
2 as represented of like type to the relief that was granted to
3 JPMorgan Chase. Is that fair?

4 MR. DESPINS: That's fine, Your Honor.

5 THE COURT: Fine. That's what we'll do.

6 MR. KRASNOW: Thank you, Your Honor.

7 THE COURT: You may approach, if that's what you're
8 doing. I can't really tell. Frankly, with so many people in
9 the courtroom, whenever I see the movement this way, I get a
10 little concerned. Mr. Miller?

11 MR. MILLER: Good afternoon, Your Honor. It's sort
12 of difficult to believe, Your Honor, this is the fifth day of
13 this case. In terms of hours, I think we're in the sixth
14 month. In any event, Your Honor, as we described last
15 Wednesday, there are a lot of moving parts to this transaction.
16 And they've been moving with great velocity over the last days
17 since Wednesday. And as a consequence, Your Honor, there has
18 had to be some major changes in the transaction. And
19 unfortunately, they weren't finalized until about a half hour
20 ago. What I would propose, Your Honor, is that if Your Honor
21 will give us a recess for approximately a half hour so we can
22 explain orally to this audience --

23 THE COURT: Excuse me for one moment. Excuse me.

24 MR. MILLER: Going back, Your Honor, a recess for a
25 half hour so that we can orally explain to this audience the

1 nature of those changes and the significance. We think that
2 will expedite the hearing. One other thing, Your Honor, if I
3 might add, a large number of objections, Your Honor, relate to
4 cure amounts on the assumption and assignment of the executory
5 contracts, etcetera. The way it was set up, Your Honor, is
6 that if you did not object to the cure amount today, you were
7 bound by the cure amount. We're making a change in that, Your
8 Honor. All rights to object to the cure amounts and to
9 whatever resolution comes out of that, Your Honor, we are
10 extending to October 3 so that there's no -- if you have a
11 motion or an objection based on the cure amounts, you need not
12 be concerned about it today.

13 THE COURT: Does that mean that if there is a cure
14 objection that hasn't been filed prior to the commencement of
15 today's hearing that there's effectively a broad-based
16 extension for all such parties to file objections --

17 MR. MILLER: That is my impression, Your Honor.

18 THE COURT: -- on or before the 3rd of October?

19 MR. MILLER: That's my impression, Your Honor.

20 THE COURT: And is there any provision for a hearing
21 in connection with disputes regarding cure amounts?

22 MR. MILLER: Only if the parties don't come to an
23 agreement.

24 THE COURT: Fine.

25 MR. MILLER: Thank you, Your Honor. So I think that

1 if people have objections based upon that, they should be
2 somewhat relieved.

3 THE COURT: All right. And I'm sure if there are
4 questions during the break, they'll approach you or your
5 partners.

6 MR. MILLER: Thank you, Your Honor.

7 THE COURT: I think if a half hour is what you think
8 you need --

9 MR. MILLER: Yes.

10 THE COURT: -- why don't we say 5:15 with the
11 understanding that time has proven to be very flexible here in
12 the past this week. And it may turn out that we'll need a
13 little bit more time. But let's make that the holding time and
14 if there's a need for more, somebody should just knock on my
15 chambers door and let me know what's required.

16 MR. MILLER: Thank you, Your Honor.

17 THE COURT: Okay. We're adjourned until 5:15
18 provisionally.

19 (Recess from 4:43 p.m. until 5:41 p.m.)

20 THE COURT: Please be seated. I find myself in the
21 unusual position of being perhaps the only person in the
22 courtroom who doesn't know what everybody else knows because I
23 didn't hear what you told everybody. Do you want to tell me
24 anything?

25 MR. MILLER: Somehow, Your Honor, we knew you were

1 going to ask that question. So --

2 THE COURT: I hate to be that predictable.

3 MR. MILLER: There is a document -- maybe it'd be
4 better, Your Honor, if we do it orally.

5 THE COURT: Fine.

6 MR. MILLER: My partner, Ms. Fife, will do that. And
7 with some assistance from Ms. --

8 THE COURT: Let me just check on something because --
9 and this is purely technical. During the first phase of the
10 hearing, I was told that those people who are listening in
11 spillover courtrooms had a very hard time hearing me. I'm
12 having some difficulty as compared with our last hearing with
13 the amplification coming out of the podium. And I just want to
14 make sure that we're not suffering system overload. Okay.
15 That's on. And let me also make the announcement, whenever
16 anyone speaks for the record, this is always true here, but
17 given the number of people, please identify yourself before
18 speaking.

19 MS. FIFE: Thank you, Your Honor. Lori Fife from
20 Weil Gotshal & Manges on behalf of the debtors. Let me try to
21 summarize the changes that were made to the transaction. In
22 terms of the economic changes, they result largely because of
23 the markets, unfortunately. And from the time that the
24 transaction was actually entered into till now, the markets
25 dropped and the value of the securities dropped as well.

1 So, originally, we were selling assets that had a
2 value of seventy -- approximately seventy billion dollars. And
3 today, Your Honor, we're only selling assets that have a value
4 of 47.4 billion dollars.

5 Barclays is assuming liabilities, however, of 45.5
6 billion dollars in connection with those assets. So that has
7 not changed from the original transaction. There was an upside
8 sharing in the original transaction. There was going to be a
9 true-up twelve months later on and that has been eliminated
10 from this transaction.

11 Barclays is still agreeing to pay the cure amounts on
12 any leases that it assumes or that we assume and assign to it.
13 Barclays is also agreeing to the same employee compensation
14 arrangements. And it is also agreeing to pay the 250 million
15 dollars of goodwill to LBI.

16 With respect to the real estate assets, Your Honor,
17 that was -- we had said at the last hearing, I believe, it was
18 approximately a billion dollars. Since that time, an appraisal
19 has come in and it is below that amount. The contract had a
20 provision which allowed the purchaser really to purchase the
21 building at the appraised amount. So we have some negotiations
22 to go, but I believe that the purchase price will come down by
23 approximately a hundred million dollars.

24 There were two other real estate properties also
25 which we received appraisals for which, similarly, were lower

1 than we had anticipated, unfortunately. So I think,
2 cumulatively, we're expecting that the purchase price will come
3 down by a hundred to maybe 200 million dollars for the real
4 estate.

5 Some other changes that were made to the contracts
6 affect what are called purchase assets and what are excluded
7 assets. There was some confusion as to which subsidiaries, if
8 any, were being sold. And we've clarified in a clarification
9 letter which we're hoping to finalize and actually present to
10 Your Honor whenever it comes down here. But in that letter,
11 we're going to clarify that the only subsidiaries that are
12 being purchased by Barclays are Lehman Brothers Canada Inc.,
13 Lehman Brothers Sudamerica SA and Lehman Brothers Uruguay SA.
14 The latter two subsidiaries that I just referred to relate to a
15 business that is called PIM, or Private Investment Management
16 Business, which is a business that was not part of the original
17 deal but is now being purchased by Barclays.

18 THE COURT: For no additional consideration?

19 MS. FIFE: That's correct, Your Honor.

20 THE COURT: And what's that business worth?

21 MS. FIFE: It's essentially just people, Your Honor.
22 It's the high net worth individual brokerage business. And
23 it's really just the people who are in those offices.

24 THE COURT: And their rolodexes.

25 MS. FIFE: And their rolodexes, exactly. The

1 customer accounts were being transferred anyway.

2 There was a change that was made to the license of
3 the Lehman Brothers' name. It was perpetual. It is now two
4 years but we don't really believe that that's a problem. The
5 IMD business, which is essentially Neuberger Berman and some
6 other related entities, will have a perpetual license to use
7 the name.

8 There was a provision in the old agreement pursuant
9 to which the parties were sharing the residential real estate
10 mortgages. There is no longer that provision. Barclays was
11 required to post collateral, actually this morning, in order to
12 get DTC to open up trading. And that collateral was posted --
13 the residential real estate mortgages was posted to DTC.
14 Pursuant to this transaction, Barclays is taking over and
15 guaranteeing all of those transactions. And they are assuming
16 the risk related to those transactions so that collateral will
17 remain with Barclays.

18 THE COURT: What's the aggregate value of the posted
19 collateral?

20 MS. FIFE: One second, Your Honor.

21 (Pause)

22 MS. FIFE: Your Honor, I'm not -- excuse me? There
23 are 300,000 trades but we're not sure the value of the
24 collateral. Perhaps during the rest of the hearing we can find
25 that amount out for Your Honor.

1 THE COURT: Okay. I'm not entirely sure I'm
2 understanding the overall impact of the change in the sharing
3 of the residential mortgage collateral and whether or not that
4 constitutes a benefit to the estate or a detriment to the
5 estate. Which do you think it is?

6 MS. FIFE: It's hard to tell. It depends on which
7 way those trades come out. But we believe it's a benefit to
8 the estate because it allowed trading to continue this morning
9 because DTC and NASDAQ were unwilling to allow Lehman to
10 continue trading without this posting of collateral which was
11 very important to the company, obviously. So we were able to
12 work out this arrangement whereby Barclays would stand behind
13 the trades. It is the debtors' belief that it's a necessary
14 part of the transaction.

15 THE COURT: Okay. And I realize I'm asking a lot of
16 questions about things that may have been fully explained when
17 I was in chambers, but Barclays' undertaking to stand behind,
18 as you put it, this posted collateral, how is that documented?
19 And what happens in the event that the transaction that we're
20 now talking about is not approved or is delayed?

21 MS. FIFE: It was documented in the First Amendment
22 to the asset purchase agreement, which we actually do have and
23 if the transaction is not consummated -- I'm actually not sure
24 of the answer, Your Honor. I'm sorry. I believe Barclays is
25 liable. Oh, okay. So, I'm advised by my partner that if the

1 transaction's not consummated then the transactions -- all the
2 trades come back to Lehman, and Lehman is then responsible for
3 them. Excuse me for one second, Your Honor.

4 (Pause)

5 MS. FIFE: I'm being told that if the liabilities are
6 less than the collateral then the excess collateral comes back
7 to Lehman.

8 THE COURT: And if the liabilities are greater?

9 MS. FIFE: We have no further obligation.

10 THE COURT: Okay.

11 MS. FIFE: We also modified the agreement -- would
12 you like the representative from DTC to explain that in more
13 detail, Your Honor?

14 THE COURT: Mr. Hirshon, I'd be happy to hear from
15 you.

16 MR. HIRSHON: Good afternoon, Your Honor. Nice to be
17 before you. Sheldon Hirshon, Proskauer Rose, representing the
18 composite -- the trust clearing corporations. Your Honor, the
19 essence of the transaction is to move all of the accounts
20 seamlessly from Lehman to Barclays. What DTC does is the
21 plumbing of that and handles all of the details in the settling
22 of the trades.

23 THE COURT: Is that how they describe themselves?

24 MR. HIRSHON: That's how I describe them because
25 until Sunday, I didn't understand any of this. But it is what

1 spigots get turned on and off and how the pipeline is filled
2 and then emptied. So each day -- there are several different
3 clearinghouses. And each day the trades are matches and then
4 either a net number goes to Lehman or from Lehman to DTC or any
5 of its clearing companies. There was a depository that holds
6 all of the securities. The residential mortgages that you've
7 heard about that were going to be split fifty/fifty are in the
8 DTC registry. We hold them now. They are there. Originally,
9 the idea for the original transaction was to split those
10 fifty/fifty between Barclays and the estate. But in order to
11 facilitate the settlement of these accounts, the additional
12 fifty percent was needed so that DTC would not be at risk for
13 the settlement. So the --

14 THE COURT: So this modification principally is for
15 the benefit of your client?

16 MR. HIRSHON: Correct. And for the transaction,
17 because without it trading would have stopped. There would be
18 no business to sell because there would have been no -- no
19 trades cleared today. So it was to facilitate the transaction
20 as a friend to the transaction that this was done so that the
21 business continues to operate today. Now, the arrangement is
22 that the whole six billion dollars of residential mortgages
23 will be there and subject to settlement. But the anticipation
24 is that once all these claims settle, the trades that are from
25 Wednesday through Monday settle, there will not be a need for

1 all of that collateral. So what the amendment to the APA says
2 is that the fifty percent will be returned, as long as it's
3 there. If something really terrible happens in the world and
4 the settlements don't work and we have to use that collateral,
5 then there will be nothing to return. But the anticipation is
6 that if the world remains somewhat stable that the fifty
7 percent that was now transferred to Barclays will be
8 transferred back to Lehman. That is the expectation.

9 THE COURT: All right. I appreciate that
10 explanation.

11 One comment before you continue, Ms. Fife. I'm just
12 once again hearing the Geiger counter. And we are connected to
13 two extra courtrooms and I know that there are people
14 participating at various occasions by telephone through
15 CourtCall. And I'm hearing increased static on the line. So,
16 I'm just going to request everybody who is participating in
17 this hearing, whether by telephone or in person, who has an
18 electronic device to shut it off. And if you're on the phone,
19 since you're just listening, please mute your phone.

20 MS. FIFE: Thank you, Your Honor. I'll continue
21 going through some of the changes, if that's okay. There was a
22 provision in a deal originally which required the debtors to
23 transfer 700 million dollars in cash to Barclays. And that is
24 no longer the case. There's no cash that's being transferred
25 to Barclays.

1 In addition, there was a provision in the contract
2 where Barclays was going to purchase a company called Eagle
3 Energy Management and they are no longer going to purchase that
4 entity.

5 We clarified, because a number of creditors had some
6 concerns during the -- yesterday we had a meeting with the
7 creditors and they were asked some questions regarding
8 intercompany claims. We made it very clear in this
9 clarification that we are not transferring any intercompany
10 payables or receivables. Those remain with the particular
11 entities.

12 There was a reference in the agreement to a mortgage
13 that was on the 745 Seventh Avenue property. And as it turned
14 out, Your Honor, there is no mortgage on that property. So we
15 deleted that reference. There was a 500 million dollar
16 promissory note made by 745 in favor of an affiliate which will
17 be repaid and extinguished.

18 Those are the major changes to the transaction.
19 There were some other clarifications that we made but I don't
20 consider them material, Your Honor.

21 THE COURT: I still consider 500 million dollars
22 material, though.

23 MS. FIFE: Yes.

24 THE COURT: So, the money that's due an affiliate,
25 what affiliate is that? And as a result of the payment, how

1 does that impact the overall realization to the estate?

2 MS. FIFE: Umm --

3 THE COURT: Maybe it doesn't.

4 MS. FIFE: Yeah. I don't think it does, Your Honor.

5 We still anticipate that the full purchase price will be paid
6 to 745 and then transferred up to the holding company and the
7 note will be extinguished -- I'm sorry? Yeah. It already has
8 been extinguished.

9 THE COURT: Okay.

10 MS. FIFE: Do you have any further questions, Your
11 Honor?

12 THE COURT: I may have some as we proceed. It's hard
13 for me to tell, based upon this helpful oral presentation, how
14 the deal has moved in terms of material changes and whether or
15 not those changes affect, in any way, the objectors and whether
16 or not these are changes that make the objectors happy or sad.

17 MS. FIFE: Right.

18 THE COURT: It's unclear to me at the moment because
19 I haven't had a chance to reflect on it and I don't know what
20 documents have been prepared that will clarify this. But I'm
21 confident that as the evening progresses, I'll learn more.

22 MS. FIFE: Yes. We're hopeful that we'll have the
23 documents so that everyone can look at them. And just one
24 other thing I wanted to point out to Your Honor, we are keeping
25 approximately twenty million dollars -- twenty billion dollars

1 of assets in LBI that are not being transferred. So those
2 assets will have value and inure to the benefit to the SIPC
3 estate. Okay?

4 THE COURT: Thank you for that.

5 MS. FIFE: I'm now going to turn it over to Mr.
6 Miller.

7 MR. MILLER: Your Honor, I don't think it's necessary
8 to repeat that we did make another change in connection with
9 the time to object to cure amounts which was in --

10 THE COURT: I remember you said that before. One
11 thing I do want to take care of as a piece of unfinished
12 business from before the break. And that's the creditors'
13 committee's position with regard to the Citibank comfort order.

14 MR. DESPINS: Your Honor, there was a reason why
15 there was some -- we couldn't address it is 'cause our
16 conflicts counsel was going to look at those issues. Susheel
17 Kirpalani is here and he will address that, Your Honor.

18 MR. KIRPALANI: Good evening, Your Honor. Susheel
19 Kirpalani of Quinn Emanuel for the creditors' committee. Your
20 Honor, it's been represented to us that this is the same type
21 of relief that was requested with respect to the Chase motion.

22 THE COURT: It was represented to me as well.

23 MR. KIRPALANI: Yes, Your Honor. It appears that the
24 language is the same. The Chase motion -- or the Chase order
25 dealt with securities and cash. And so the language is a

1 little bit different. It talks about how the pre-petition
2 amounts are -- or the post-petition amounts are secured by as
3 opposed to have an allowable setoff right. And while I agree
4 that's not a distinction with a difference, the one thing
5 that's not clear to me from the Chase motion is the mutuality
6 issue. I apologize, but the timing is such that I've been
7 getting e-mails from my office. If I could just ask the
8 debtors, was there no mutuality issue in the Chase motion and
9 the same issue here? Meaning that in the Chase motion, was it
10 clear that the accounts and the obligations were both owed by
11 the same entity and the same thing is true here? Or are we
12 relying on a contract exception to mutuality?

13 MR. KRASNOW: Your Honor, both as to the JPMorgan
14 Chase agreements, so too as with respect to the Citibank
15 agreements, Holdings is the guarantor. And it is Holdings'
16 collateral which was at issue in both instances. So, other
17 than JPMorgan Chase dealing with securities and cash, although
18 as to the Holdings company, it was just cash, as I recall, with
19 respect to Citibank, it is just cash. So in all material
20 respects, the orders are identical, Your Honor.

21 THE COURT: I'm satisfied. Are you?

22 MR. KIRPALANI: Yes, Your Honor.

23 THE COURT: Good.

24 MR. KRASNOW: Thank you.

25 MR. KIRPALANI: Thank you, Your Honor.

1 THE COURT: The order will be entered.

2 MR. KRASNOW: Your Honor, may I be excused? I think
3 that was my only --

4 THE COURT: I'm sorry?

5 MR. KRASNOW: I think that was my only business here.
6 Should I be excused?

7 THE COURT: You mean, you don't want to stay? Sure,
8 you may be excused.

9 MR. KRASNOW: Thank you, Your Honor.

10 MR. MILLER: Good evening, Your Honor.

11 THE COURT: Good evening.

12 MR. MILLER: You know, Your Honor, as I was sitting
13 here listening to what was going on, it occurred to me that the
14 way we do business today is so different from the way we used
15 to do business.

16 THE COURT: It could be you.

17 MR. MILLER: It could be me. I had trouble getting
18 through security today.

19 THE COURT: Do you have anything on in your pocket?

20 UNIDENTIFIED SPEAKER: Are you radioactive?

21 MR. MILLER: I think my flak jacket, Your Honor. I
22 think that's it. These decisions, Your Honor, are being made
23 almost in split second timing. One has to think about the
24 decisions that were made in connection with the bailout at Bear
25 Stearns. How much time was devoted to that? The decision to

1 open access to the Primary Dealer Credit Facility at the
2 Federal Bank to support the banking industry, to commit the
3 federal government to what might be hundreds of billions of
4 dollars to save Fannie Mae and Freddie Mac and to have the
5 government advance eighty-five billion dollars to save AIG.
6 And now, Your Honor, within the space of maybe a few days for
7 the government to adopt a variation of the Resolution Trust
8 Company or the Reconstruction Finance Corporation to save the
9 economy and the welfare of the people who are dependent upon a
10 stable economy.

11 The tragedy of Lehman, Your Honor, is part and parcel
12 of the design to preserve and stabilize financial markets.
13 Access to federal funding to maintain the business of Lehman
14 Brothers incorporated the need to put Lehman Brothers Holdings
15 Inc. into Chapter 11 as part of a plan to move that sensitive
16 business of LBI to a qualified buyer as soon as possible. A
17 buyer who meets the qualifications necessary to operate such a
18 business -- which is a universe, I might add, Your Honor, that
19 is only limited to a few possible candidates. In making those
20 decisions that the government or parties involved wait for
21 ordered reports, appraisals, physical inventories, a review of
22 each and every document relating to the transaction, I think,
23 Your Honor, the answer is no. They had to do what was
24 necessary to protect the greater good and not to lose the
25 forest for the trees.

1 Clearly, our economy was and is dependent upon those
2 decisions and sole decisions which would come in the future few
3 weeks. The decisions affected and would affect millions of
4 people. In the case of Lehman, it affects directly the 25,000
5 employees whose futures became extremely clouded because of the
6 events of last weekend.

7 The future of many of those people hangs in the
8 balance in connection with the transaction before the Court.
9 If it's not approved, no one can predict with any certainty the
10 consequences other than to note that there will be additional
11 turmoil and thousands of transactions will be suspended. The
12 volatility and distress of the liquidation of collateral
13 positions will be unmatched in history. The unemployment rolls
14 for the metropolitan area will increase dramatically, not to
15 mention the financial losses incurred by ordinary people who
16 would be prejudiced by their inability to reach their accounts.

17 Expedition, Your Honor, is mandatory. Events move
18 with the velocity that almost defies comprehension. In this
19 kind of world, form cannot be exalted over substance. The
20 substance of this transaction is to continue a business for the
21 benefit of the general economy, the employees whose lives are
22 at stake and to fit a small piece into the jigsaw puzzle of
23 maintaining a stable economy. We cannot take the risk of
24 rejecting this transaction because of ambiguities, the lack of
25 a piece of paper to support every element of the assets to be

1 transferred, the lack of definition as to particular items. We
2 have to think and we have to act in the same manner that the
3 decisions were made by the government and others over the past
4 week to expend billions and billions of dollars to shore up the
5 economy. Lehman is here because it was necessary to assure
6 LBI's access to the support of the Federal Reserve Bank and the
7 SEC support and to allow LBI access to the window to support
8 the transactions that were pending before there was a run on
9 the bank. To dissipate that effort, by rejecting a transaction
10 that is intended to save jobs, protect customers and enable a
11 relatively smooth transition of the LBI business and bring
12 value to all involved, would be a miscarriage of justice and
13 detrimental to the national interest.

14 Since the hearing last Wednesday, and in the space of
15 roughly twenty-four hours, Your Honor, there have been a number
16 of significant events. Yesterday, the Chicago Mercantile
17 Exchange unilaterally decided to close out all of Lehman's
18 positions on that exchange. That closeout resulted in a loss
19 to Lehman of approximately 1.6 billion dollars. Earlier this
20 afternoon, Your Honor, the Securities Investor Protection
21 Corporation initiated a proceeding under the Securities
22 Investor Protection Act in the United States District Court for
23 the Southern District of New York.

24 THE COURT: Excuse me, Mr. Miller. You're being
25 interrupted, as is this entire proceeding, by someone who's on

1 the telephone who's whispering into the courtroom. As I said
2 at the outset, everybody who is listening on the phone, mute
3 your phone. Everybody who has an electronic device, find it
4 and shut it off or throw it away.

5 MR. MILLER: Your Honor, as I was saying, this
6 afternoon the Securities Investor Protection Corporation
7 initiated a proceeding under the Securities Investor Protection
8 Act in the United States District Court for the Southern
9 District of New York. Mr. James Giddens, an attorney and
10 experienced SIPC trustee, has been appointed as trustee in the
11 SIPC proceeding. LBI consented to the commencement of the SIPC
12 proceeding. And during the past few days, Mr. Giddens was
13 provided with information concerning the state of affairs at
14 LBI and the need for expedition and support of the sale
15 transaction. Mr. Giddens is a recognized SIPC trustee and a
16 man of great talent, Your Honor. He recognized the
17 extraordinary nature of what is occurring and, unusual for a
18 SIPC proceeding, SIPC and the trustee have agreed that trading
19 in customer accounts --

20 THE COURT: Sorry. Technical difficulties.

21 MR. MILLER: In that SIPC proceeding, Your Honor, the
22 trustee and SIPC have agreed that trading in customer accounts
23 may continue in the ordinary course of business rather than be
24 suspended as is usual in a SIPC proceeding. SIPC and the
25 trustee have expended extraordinary efforts in an extraordinary

1 case to protect the public customers and ensure stability and
2 preservation of customer interests. Their actions are to be
3 commended, Your Honor. And I believe, Your Honor, that the
4 SIPC proceeding has been referred, I hope, to Your Honor.

5 THE COURT: I've seen Judge Lynch's order. I have a
6 certified copy of it and the order includes a decretal
7 paragraph removing those proceedings to this court. I'm
8 satisfied that the seal is in fact genuine and I'm prepared to
9 proceed with full authority.

10 MR. MILLER: And, Your Honor, Mr. Giddens is here
11 with Mr. Kevin (sic) Caputo from SIPC and the president of
12 SIPC, Your Honor, Mr. Stephen Harbeck who's sitting in the jury
13 box.

14 THE COURT: Gentlemen, welcome.

15 MR. GIDDENS: Thank you, Your Honor.

16 MR. MILLER: Barclays, Your Honor, has extended the
17 sale to enable this extraordinary transaction and hopefully to
18 be consummated. Yesterday, as Your Honor has heard, Barclays
19 basically stepped into the shoes of the Federal Reserve in
20 connection with the Primary Dealer Credit Facility as to the
21 45.5 billion dollars Lehman borrowed last Monday and received
22 the collateral that Lehman had posted in connection therewith.

23 Because of the circumstances this week, Your Honor,
24 the operations of LBI have resulted in approximately 300,000
25 sales, which is very significant. In addition, Your Honor,

1 because of the administration proceeding in the United Kingdom
2 for LBIE and the freezing of all of the assets of LBI that were
3 in the possession of LBIE, which I believe, Your Honor, stands
4 for Lehman Brothers England, relating to repo financings, the
5 result is that we were unable -- or LBI is unable to deliver to
6 Barclays the assets that were originally intended under the
7 APA. That's one of the reasons, Your Honor, for the amendments
8 that we heard about earlier today.

9 There are many moving parts in what we are trying to
10 do, many of which are beyond the control of Lehman or Barclays
11 as market forces operate to affect the value of the transaction
12 and the assets. Enormous problems did arise in connection with
13 clearing transactions that have caused a number of
14 modifications to the transaction. The necessity of assuring
15 DTC and other clearing institutions who will not expose
16 themselves to additional liability of some kind has been
17 enormously time consuming.

18 It's because of that, Your Honor, that we have heard
19 about these changes. But if Your Honor will look at the basic
20 agreement, the amount of cash consideration will be relatively
21 the same except for the issues with respect to the value of the
22 real estate. The 250 million dollars being paid for the
23 goodwill of LBI will go to LBI. The real estate, 745 Seventh
24 Avenue, and the two data centers in New Jersey, that's with a
25 variation, Your Honor, and there's some negotiation to be done

1 with Barclays in connection with that. And so there might be a
2 decrease of that one billion four fifty that we talked about on
3 Wednesday to something in the area of a billion three to a
4 billion three fifty, in that area.

5 THE COURT: Let me break in with respect to that
6 issue --

7 MR. MILLER: Sure.

8 THE COURT: -- because it's something that concerns
9 me. I read most of the objections --

10 MR. MILLER: Yes, sir.

11 THE COURT: -- and there were a lot of them. And I
12 may have missed some that came in late. But none of them
13 picked up the issue that concerned me. As I view the
14 transaction, and I need your help in telling me if I'm seeing
15 it incorrectly, most of the value is attributed to the real
16 estate. But there has been no traditional marketing effort for
17 the real estate. Instead, the real estate represents a tie-in
18 to the sale of the broker dealer assets and the preservation of
19 markets and employment. One of the things that I think you may
20 need to get over for purposes of today's evidentiary hearing,
21 in terms of the showing you need to make, is that the
22 transaction as it relates to the real estate in particular is
23 fair value.

24 I know nothing about this appraisal. I don't know
25 who commissioned it. I don't know who the appraiser is. I

1 don't know if he or she is in court. But I am, frankly,
2 concerned that we're all hearing -- and maybe others heard it
3 earlier but I'm hearing it only now -- that there is this
4 negative variance in the assumed value of the real estate. And
5 I find that troublesome.

6 MR. MILLER: Yes, sir. We will try to deal with
7 that, Your Honor. Now, Your Honor, in connection with going
8 forward in the transaction, I don't know what order Your Honor
9 wants to go in, whether you want to hear oral statements of
10 objections or should we move right to the evidentiary hearing?

11 THE COURT: Well, one of the things I'd like to do,
12 and it's really to verify something, I don't recall seeing an
13 objection from the official creditors' committee. And I don't
14 know, as a result of that, whether the committee supports the
15 transaction, has issues with respect to the transaction or has
16 given you notice of whatever objections they might have. So it
17 seems to me that because of the expedited nature of today's
18 proceeding, we agreed Wednesday that written objections were
19 not necessary and, particularly, not necessary in the case of
20 the committee which had just been formed. I'd like to know
21 what the status is as it relates to that important
22 constituency.

23 MR. MILLER: Mr. Despins informed me, Your Honor,
24 before the hearing -- I'm losing my voice -- that the committee
25 will not object to the transaction but does not support it. So

1 they're not affirmatively -- I think not affirmatively going to
2 stand up and say --

3 MR. DESPINS: Why don't I address that, Your Honor?

4 MR. MILLER: Sure.

5 THE COURT: I think that would be helpful.

6 MR. MILLER: Don't change your position.

7 MR. DESPINS: Good afternoon, Your Honor. Luc
8 Despins with Milbank Tweed, proposed counsel for the committee.
9 I'm here with my partners, Paul Aronson and Dennis Dunne. The
10 headline is we are not objecting, Your Honor, but although
11 we'll have some minor comments to the form of order, which we
12 don't need to detain the court order at this point. And the
13 reason we're not objecting is really based on the lack of a
14 viable alternative. And, Your Honor, we're still a little bit
15 puzzled by the statement by Mr. Miller that we're not
16 affirmatively supporting. And that's correct. We're not
17 affirmatively supporting the transaction, Your Honor, because
18 there has been insufficient time for us to really do all the
19 due diligence that we would feel should be done to take that
20 next step of saying yes, this is the best deal and we're
21 supportive actively. We've met with the debtor. They've been
22 very cooperative. I don't want to imply that they have not
23 been but we have not had time to test the assumptions and do
24 all the due diligence we would normally do. So that is, Your
25 Honor, the distinction.

1 The second message, Your Honor, which is not directed
2 at Your Honor but really at the debtor and, generally, at also
3 regulators, is that the committee, although we're not objecting
4 to this transaction, we understand we're dealing with
5 extraordinary circumstances, as Your Honor has described. The
6 committee fully expects that after this, we're going to go back
7 to what I would call --

8 THE COURT: A more conventional model?

9 MR. DESPINS: Yes. Business as usual for Chapter 11,
10 if you will, Your Honor. The committee feels very strongly and
11 wanted me to say that they recognize the extraordinary nature
12 of what's going on here but they feel their duties are to pre-
13 petition creditors, not to the market participants, not to the
14 economy at large or other participants in those markets. And I
15 think that that's very important and it's very important to the
16 committee that I convey that message, again, not to Your Honor,
17 but really to the debtor and other parties in this case. So
18 that is where we stand, Your Honor.

19 THE COURT: I appreciate that. And it lifts the fog
20 over at least that aspect of the case. And I'm grateful for
21 the comment. Has there been any --

22 MR. MILLER: Your Honor, we --

23 THE COURT: Has there been any resolution by
24 agreement of any of the other objections? Or are they all live
25 at this point --

1 MR. MILLER: As far as --

2 THE COURT: -- except for the cure amounts perhaps?

3 MR. MILLER: As far as I know, Your Honor, I have to
4 say, Your Honor, there wasn't really time. They were cascading
5 through the electronic filing at such a rate, it was almost
6 impossible to keep up with them.

7 THE COURT: I know.

8 MR. MILLER: And so, with people dedicated to doing
9 the clarification of the APA -- of the asset purchase
10 agreement, there really wasn't an adequate amount of time. As
11 Mr. Despins says, Your Honor, this is such an exceptional
12 circumstance, I would feel relieved to get back to the ordinary
13 Chapter 11 process. It would be good for everybody's health.
14 But this is just an unusual situation. And while I understand
15 the committee's views and the parochial views as to general
16 unsecured creditors, we are facing a bigger picture and a very
17 difficult severe picture for everybody involved. And in
18 addition to the people in this courtroom, Your Honor, the
19 telephone is going -- just I can't tell you the rapidity of
20 calls from people, where's -- how can I get my securities?
21 This is my pension fund. And so on. This is a tragedy, Your
22 Honor. And maybe we missed the RTC by a week. That's the real
23 tragedy, Your Honor.

24 THE COURT: That occurred to me as well.

25 MR. MILLER: So I defer to Your Honor as to the

1 procedure for going forward. Should we have -- I would waive
2 opening statements at this point, Your Honor, since I've
3 already made mine.

4 THE COURT: Well, I propose the following. And I
5 think you've made your opening statement. I would propose the
6 following. I would like to hear -- I'm not sure what the right
7 time for that is -- from counsel for the SIPC trustee or the
8 SIPC trustee, beyond the fact that we've commenced a case, and
9 understand a little bit more about how that parallel proceeding
10 that is happening as we speak, in conjunction with the sale
11 process, truly does tie together with what we're now doing.
12 And I think that it would be useful for me to have an
13 evidentiary record that supports the sale motion. Once that
14 record is made, either through proffer or live testimony, based
15 upon the willingness of objectors to do it through proffer --
16 and if they object, that's fine. We can have witnesses. I
17 think it would be useful then to move on to the merits of the
18 objections and deal with the legal issues that confront us.

19 MR. MILLER: Yes, Your Honor. Mr. Caputo from SIPC
20 is here with us today.

21 THE COURT: Fine. Before he gets up, let me just
22 confirm that what I have -- often what I say is acceptable to
23 people when they hear it. But -- at least when I'm sitting
24 here. But is what I have outlined consistent with your views?

25 MR. MILLER: Whatever you say, Your Honor, is

1 Mr. McDade would testify that he first became
2 involved with this particular transaction Monday morning --
3 last Monday morning, I guess that was September 15, at 7 a.m.
4 in the morning. Since that time, he has been in constant
5 contact with senior management and Lehman's outside advisors
6 regarding the status and progression of the negotiations. The
7 negotiations leading up to the Barclays' transaction have been
8 at arm's length, objective, aggressively pursued by Barclays
9 and difficult, to say the least, Your Honor.

10 He would testify that since the collapse of Bear
11 Stearns and a subsequent takeover by JPMorgan, the Federal
12 Reserve Bank has made financing available to broker-dealers in
13 what is colloquially referred to as the window.

14 After the broker-dealer settles its trade at the
15 close of business, the clearing bank returns the collateral,
16 which Lehman then transfers to the Federal Reserve in exchange
17 for financing until the opening of business the next day. That
18 process, as the liquidity of Lehman's deteriorated, no longer
19 became possible.

20 He would testify that in the climate of today's
21 market, a potential buyer of the broker-dealer business could
22 not operate without having access to the PDCF, the Primary
23 Dealer Credit Facility. That facility is not available to all
24 broker-dealers. Rather, it is available only to a limited
25 number of financial institutions who could meet the rules and

1 regulations of the Federal Reserve in respect thereof. And
2 that, Your Honor, is probably less than a dozen institutions.

3 He would testify that during the period of stress and
4 strain, the week before this week, Lehman attempted to interest
5 the Bank of America in an acquisition of Lehman's, and that,
6 unfortunately, did not come to fruition. At the same time, it
7 was negotiating an acquisition by Barclays of the Lehman
8 business. And that negotiation led to what I might call an
9 agreement that was subject to the -- he would testify it was
10 subject to the regulators throughout the world, and,
11 unfortunately, it became clear that that agreement could not be
12 consummated.

13 And immediately after that announcement was made, he
14 would testify that he and other officers of Lehman were called
15 to the Federal Reserve Bank in New York to meet with the
16 Federal Reserve Bank representatives, the SEC, and the United
17 States Treasury to deal with the problem confronting Lehman's.
18 And those meetings, he would testify, took place, Your Honor,
19 Sunday morning and ran into the late evening of that day. In
20 which it was made perfectly clear that it was necessary for the
21 protection of the public and the financial markets in an effort
22 to placate the public markets, or at least stabilize the
23 situation, that it is in the best interest of all parties that
24 Lehman Brothers Holdings Inc. commence a Chapter 11 proceeding.
25 And that it maintain, for LBI, access to the so-called window.

1 And it was in that context, he would testify, that LBI was
2 enabled to go forward, at least for the past week.

3 He would also testify, Your Honor, Barclays, unlike
4 some of the larger and healthier financial institutions that
5 might qualify for access to the PDCF, does not have a North
6 American broker-dealer operation of this scale. Therefore, the
7 sale is a national extension of Barclays' business. Barclays
8 would have access to the PDCF and also will assume Lehman's
9 broad spectrum broker-dealer license.

10 Not only is this sale a good match economically but
11 it saves the jobs of thousands of employees and avoids losses
12 that could total in the hundreds of billions of dollars.

13 He would further testify, Your Honor, that he is
14 familiar with the asset purchase agreement, that he
15 participated in all of the negotiations involved in the asset
16 purchase agreement. And that those negotiations from time to
17 time broke out into different teams, but he was the team leader
18 for Lehman.

19 He would testify that the asset purchase agreement
20 provides for the sale of the North American broker-dealer
21 business of LBI, which includes banking and capital markets
22 business in addition to numerous other divisions.

23 The Seventh Avenue headquarters is being transferred
24 to Barclays, in addition to the various offices located
25 throughout the United States, that are integral to the broker-

1 dealer business. The value of the real estate being
2 transferred to Barclays pursuant to the transaction is subject
3 to negotiation with respect of the appraised values. That the
4 building on Seventh Avenue is subject to an appraisal which has
5 been provided to Barclays. And that appraisal is in the area
6 of 900 million dollars to 100 million dollars. And that the
7 appraisal was done by CB Richard Ellis. And it was prepared
8 for the other debtor in this case, LB 745 LLC and Barclays
9 Capital Inc. And it is a voluminous appraisal of the
10 properties which we will offer into evidence at the appropriate
11 time, Your Honor.

12 And that he would also testify that an appraisal of
13 the two data centers was also directed and that CB Richard
14 Ellis was also engaged to undertake that appraisal. And that
15 appraisal has established the value for the purpose of the
16 negotiations, Your Honor. And as pointed out earlier in the
17 proceeding, those values have come in at slightly less -- I
18 shouldn't say slightly, less than was originally projected.

19 So that was a very negotiated term, and the reason
20 for the transfer of these properties, Your Honor, is that they
21 are integral to the smooth transition of the businesses.

22 Barclays will also assume exposure for the employees
23 that accept offers of employment, which is estimated to have a
24 value of approximately -- an exposure of approximately two
25 billion dollars.

1 Barclays is also assuming the cure amounts relating
2 to contracts and leases that will be assumed pursuant to the
3 asset purchase agreement. And that has a potential exposure,
4 Your Honor, of 1.5 billion dollars that he would testify to.

5 Barclays is also paying the real estate transfer
6 taxes, which are estimated to be approximately thirty million
7 dollars.

8 Mr. McDade would testify that the financial community
9 has known that Lehman has been under stress for some time.
10 Certainly, going back to the time that Bear Sterns was bailed
11 out. Potential purchasers have known that Lehman has been
12 searching for a buyer since well before the Chapter 11 case
13 commenced. And that those ethics, those strategic alternatives
14 that were being pursued involved parts of Lehman as well as the
15 whole of Lehman. And that the notoriety attached to that did
16 not produce any interested parties other than the ones I
17 mentioned -- he mentioned.

18 During the meeting at the Federal Reserve Bank last
19 week, Bank of America, JPMorgan, Merrill Lynch and Barclays
20 were all present, showing interest in the broker-dealer assets.
21 It was clear to each party that if Lehman was unable to reach a
22 deal it would most likely have to commence cases under Chapter
23 11 of the Bankruptcy Code. That would not only have an adverse
24 impact upon their businesses but also upon the international
25 markets.

1 He would testify that since the commencement of the
2 Chapter 11 case, Lehman's senior management and its advisors
3 have not undertaken an intensive marketing of the business and
4 the assets to be sold. But instead focused on reaching an
5 agreement with the most eligible interested buyer for these
6 assets.

7 That notwithstanding the lack of a specific program
8 for marketing, the sale of Lehman's broker-dealer business has
9 been known worldwide. And, yet, he would say nobody has
10 expressed an interest to step into the shoes of -- excuse me,
11 step into the shoes of Barclays, Your Honor.

12 Lehman has not received any other interest since the
13 commencement of the Chapter 11 cases. If Lehman was approached
14 by another potential buyer that he would consider the offer,
15 provided that the company had sufficient liquidity to operate
16 the business without jeopardizing customer accounts. That has
17 not happened, Your Honor. So it is almost academic.

18 Mr. McDade would testify, Your Honor, that if the
19 sale with Barclays is consummated, customer accounts would
20 continue on a seamless, uninterrupted basis and trading would
21 continue on a normal basis, thereby maintaining the billions of
22 dollars in value.

23 At the same time, the jobs of thousands of employees
24 would be saved and will be entitled to substantial benefits
25 from Barclays in the form of compensation, bonuses and

1 severance payments that are based upon the employee's prior
2 performance while with Lehman.

3 He would testify to the consummation of the
4 transactions makes available a greater pool of assets to the
5 debtors' estates, because the exposure under Lehman Holdings
6 guarantee to the broker-dealer will be substantially less. If
7 the transaction does not close today or over this weekend, Your
8 Honor, Mr. McDade would testify that the effect on the broker-
9 dealers business and on Lehman Holdings would be devastating.
10 First, the failure to consummate the transaction would cause
11 default under the DIP facility and require Lehman Holdings to
12 repay the outstanding amounts under that facility.

13 He would testify that the liabilities in the hundreds
14 of billions of dollars would be triggered against Lehman
15 Holdings which would in turn deplete the property available to
16 distribution to creditors. It would adversely affect the
17 debtors other nondebtor subsidiaries to the extent they have
18 any value.

19 He would testify, Your Honor, that if the transaction
20 is not consummated, it will result in the largest failure of a
21 broker-dealer in the history of the United States and will
22 cripple the credit markets for some time to come.

23 He would further testify, Your Honor, that the shock
24 of this transaction not being consummated in the public markets
25 could be immeasurable and could ignite a panic in the financial

1 than that today?

2 A. Materially less -- again, I have not seen the final
3 documents in terms of the appraisal.

4 Q. Okay. With respect to the appraisals of those two
5 buildings in New Jersey, again, has that appraised value,
6 although it's an unknown to you, do you know whether that
7 appraised value has been agreed upon between Barclays and --

8 A. No, it has not, to be negotiated.

9 Q. Okay. Is it your understanding, sir, that with respect to
10 the transfer of these real estate assets to Barclays that there
11 is any broker fee involved?

12 A. My understanding is from the negotiation, again, that a
13 suggested broker fee was part of the negotiation to take place,
14 yes.

15 Q. And do you know what the magnitude of that suggested
16 broker fee is?

17 A. I do not.

18 Q. Okay. Do you have any approximate idea of what it might
19 be? Are we talking tens of millions, fifty million or do we
20 not know?

21 A. I do not know.

22 Q. Okay. Is it your understanding, sir, that there actually
23 will be a broker fee payable to a broker as a result of the
24 transfer of these assets?

25 A. There is not an individual broker involved.

1 Q. So there is no actual broker fee that will be paid, but
2 value will be deducted from the appraised value for the benefit
3 of Barclays, is that correct?

4 A. That's correct.

5 Q. Sir, just to switch gears and to talk about the businesses
6 that are being sold from LBI to Barclays, are there any
7 businesses remaining at LBI that are not being transferred to
8 Barclays?

9 A. No.

10 Q. And with respect to the contracts that are associated with
11 each of the various businesses that are being acquired by
12 Barclays, do each of those contracts also reside at LBI?

13 A. The contracts with respect to the underlying products?

14 Q. Let's start more broadly, the contracts with respect to
15 the running of each of those businesses, generally?

16 A. I'm not quite certain I understand the specifics of the
17 question. The assets of those business units, the people of
18 the business units will be moving to Barclays. The individual
19 businesses have different assets and securities and
20 derivatives, obviously, that they're responsible for trading.
21 The contracts, themselves, in terms of the business units, I'm
22 not certain I understand the question.

23 Q. Okay. Are the trading contracts with respect to the
24 various products that each of those businesses operates in, are
25 those contracts going to the purchaser?

1 A. The specific question has yet to be determined, given the
2 dynamic nature and speed of which we're operating. Each of the
3 individual businesses will enter into a series of very quick
4 next steps to determine how we actually transact in each of
5 those business units going forward.

6 Q. And who will determine which of those contracts go to the
7 purchaser and which of those contracts stay behind? Will that
8 be something in Barclays' discretion, or is that Lehman's
9 decision?

10 A. That will be a mutual process.

11 Q. And is it your understanding, sir, that all of the
12 contracts that are to be negotiated, in terms of whether they
13 stay or whether they go, are contracts that reside at LBI? Or
14 are any of those contracts that reside at other Lehman
15 entities?

16 A. LBI.

17 Q. And, sir, can you also please confirm if it is your
18 understanding that the purchased assets do not include
19 Neuberger Berman or any of its assets?

20 A. Yes, I affirm that.

21 Q. Okay. Sir, are you aware of whether -- do you know what a
22 closing balance sheet is?

23 A. Yes, I do.

24 Q. Okay. And do you know whether a closing balance sheet was
25 prepared in connection with this transaction?

1 A. I am not aware of that.

2 Q. Okay. Assuming that one was not, do you have any
3 understanding of why one was not?

4 A. The speed of which we're operating.

5 Q. Well, in the absence of a closing balance sheet having
6 been prepared, can you please describe for the Court how it is
7 that the debtor determined that fair value was being realized
8 for the sale of these assets?

9 A. For the assets?

10 Q. Yes.

11 A. The individual assets on the balance sheet, the trading
12 inventory was bottoms up, meaning individual line item detail
13 processed through all of our individual risk business units in
14 coordination with the normal finance professionals who are
15 incorporated into the valuation process.

16 Q. Did the debtors have any form of valuations of any of the
17 assets that are being transferred?

18 A. Sorry?

19 Q. Does Lehman have any valuations -- internal valuations of
20 any of the assets that are being transferred to Barclays?

21 A. Absolutely. There are many complex securities involved.
22 Many different models that we use to evaluate those securities.

23 Q. And so, sir, is it your testimony then that a valuation
24 was conducted within Lehman of all of the assets that are being
25 transferred to Barclays? When was that conducted?

1 A. Portfolio moved during the week, but that was conducted
2 all last evening. All through and up to the arrangement -- the
3 agreement today.

4 Q. And, sir, was it the case that at the time of the meeting
5 that took place with creditors this past Wednesday, LBI had
6 approximately --

7 MR. MILLER: Excuse me, Your Honor, Thursday.

8 MR. QURESHI: I apologize, it was Thursday.

9 THE COURT: I'll take that as an objection to the
10 question, and it's sustained.

11 Q. Am I correct, sir, in understanding that at that time
12 creditors were told that LBI had approximately 1.3 billion
13 dollars in cash?

14 A. That's correct.

15 Q. Okay. And at that time, the deal was that 700 million of
16 those funds would go to Barclays, and the remaining 600 million
17 would stay at LBI?

18 A. That's correct.

19 Q. And what is the cash balance at LBI today?

20 A. It's virtually nil.

21 Q. Where did it go?

22 A. To the CME. Liquidation of the CME trades. And to all
23 the other clearing banks involved in processing of the
24 transactions this week.

25 Q. Sir, since the time that the agreement was first entered

1 into with Barclays early in the week, are you aware of any
2 affirmative efforts of having been undertaken on behalf of
3 Lehman to shop these assets to any other potential purchasers?

4 A. The assets, specifically, the inventory assets?

5 Q. The assets being acquired by Barclays or any subset of
6 those?

7 A. No. Nor -- no.

8 MR. QURESHI: Your Honor, may I have one moment,
9 please?

10 THE COURT: Sure.

11 Q. Sir, are you familiar, generally, with the terms of the
12 DIP financing agreement?

13 A. Generally.

14 Q. Okay. Is it your understanding that if the transaction
15 with Barclays does not close, that that would constitute a
16 default under the DIP?

17 A. Thirty days to repay. It's thirty days to repay.

18 Q. So it would trigger a thirty-day repayment of it?

19 A. Yes.

20 Q. Okay.

21 MR. QURESHI: Thank you, Your Honor, that's all I
22 have.

23 THE COURT: Is there anyone else who wishes to
24 examine the witness?

25 MR. ROSNER: Your Honor, if you can see me, I'm right

1 here. I'd like to --

2 THE COURT: Well, Mr. Bienenstock is ahead of you.
3 So you're going to have to move to a position where you can
4 both be seen and heard.

5 Mr. Bienenstock, it's your turn.

6 MR. BIENENSTOCK: Thank you, Your Honor.

7 CROSS-EXAMINATION

8 BY MR. BIENENSTOCK:

9 Q. Good evening, Mr. McDade.

10 A. Good evening.

11 Q. My name is Martin Bienenstock, representing the Walt
12 Disney Company. Yesterday, I understand that you were at the
13 information session at Weil Gotshal?

14 A. That's correct.

15 Q. And I want to confirm some information given there.
16 Pursuant to the proposed asset purchase agreement here, the
17 businesses that are being -- the Lehman businesses being
18 transferred to Barclays are as follows: Tell me if I'm
19 incorrect, I'll read one at a time. Investment Banking?

20 A. Correct.

21 Q. Fixed Income?

22 A. Correct.

23 Q. North American Operations?

24 A. Correct.

25 Q. Credit?

- 1 A. Correct.
- 2 Q. Lending?
- 3 A. Correct.
- 4 Q. Municipal Bonds?
- 5 A. Yes.
- 6 Q. Commodities?
- 7 A. Correct.
- 8 Q. High Yield?
- 9 A. Yes.
- 10 Q. Derivatives?
- 11 A. Yes.
- 12 Q. Government Bonds?
- 13 A. Yes.
- 14 Q. Interest rates derivatives?
- 15 A. Yes.
- 16 Q. High grade credit?
- 17 A. Yes.
- 18 Q. Cash and credit derivatives?
- 19 A. Yes.
- 20 Q. Money market?
- 21 A. Yes.
- 22 Q. Commercial paper?
- 23 A. That's the same.
- 24 Q. Commercial lending?
- 25 A. Commercial lending, if you mean the leverage finance

1 order to make an assessment as to whether to go forward with a
2 transaction?

3 A. I'm not specifically aware of anything that they asked for
4 that we could not provide.

5 Q. Are you aware of whether they asked for or were given
6 information regarding intercompany transactions?

7 A. I'm not aware specifically.

8 Q. Does that include intercompany payables?

9 A. Again, not aware specifically.

10 Q. And intercompany receivables as well?

11 A. Yes, sir.

12 Q. Okay. Are you aware today if there's an intercompany
13 payable to what I'll call LB -- do you know what I mean by
14 LBIE?

15 A. Yes.

16 Q. Are you aware today whether there's an intercompany
17 payable to LBIE by either of the debtor entities?

18 A. Yes.

19 Q. How much is it?

20 A. Approximately five billion.

21 Q. And where did that one arise?

22 A. I'm sorry?

23 Q. Where did that -- I'm sorry. Where did that intercompany
24 payable arise? From where did that intercompany payable arise?

25 A. I think it's a series of transactions. I'm not aware of

1 the specifics.

2 Q. Are you aware of any of the specifics?

3 A. No.

4 Q. Not a single one?

5 A. With respect to the intercompany?

6 Q. With respect to the intercompany payable from these
7 debtors to LBIE?

8 A. I know the notional amount.

9 Q. Okay.

10 A. Five billion.

11 Q. Do you know if money was transferred from LBIE to the
12 debtor entities on Friday, the last week?

13 A. I'm not involved in the day-to-day process of financing
14 the firm.

15 Q. But my question was whether you were aware of that?

16 A. No, I'm not specifically aware.

17 Q. Have you read anything about that?

18 A. Absolutely.

19 Q. You have read something about that?

20 A. Have I read it in the media, is that what you're referring
21 to?

22 Q. Yes.

23 A. Yes.

24 Q. And you did testify that you were at the meeting yesterday
25 at Weil Gotshal?

1 A. I was at an afternoon session. My understanding is there
2 was more than one session.

3 Q. And these questions were asked as to the intercompany
4 payable, correct?

5 A. Uh-huh.

6 Q. And do you recall whether --

7 THE COURT: You have to answer with more than a nod
8 of the head. Thanks.

9 THE WITNESS: Sorry.

10 Q. And do you recall whether this information that I'm asking
11 now was given yesterday at the information center?

12 A. It was not given yesterday.

13 Q. Which debtor entity owes that money to LBIE?

14 A. LBI is a payable to LBIE.

15 Q. And what about Holdings?

16 A. LBIE is a payable to LB Holdings.

17 Q. And how much is that?

18 A. Eight billion.

19 Q. And do you know what that's derived from?

20 A. No.

21 Q. Did you do an audit of the -- I'm sorry. Has an audit
22 been accomplished of the securities that are to be transferred
23 to Barclays under the proposed transactions?

24 A. If you mean an audit by external valuation process?

25 Q. By identification of the securities?

1 A. Absolutely, line by line.

2 Q. I think during your proffer it was stated that you are
3 familiar with the contract. I assume that means you don't know
4 every line but you are generally familiar with the contract
5 that's before the Court today, is that a fair statement?

6 A. Yes.

7 Q. Are you aware of the closing conditions under the
8 contract?

9 A. I believe so.

10 Q. Are they all satisfied as of today, subject to the entry
11 of an order by this Court?

12 A. With respect to all those that I have knowledge of, yes.

13 Q. And I think there was a question, but I just want to be
14 clear. There is a closing condition regarding eight employees
15 signing up agreements, is that correct?

16 A. That is correct.

17 Q. And I might have missed this before, and have all of those
18 eight employees been signed up?

19 A. We expect no issues with respect to the employment
20 services needs to close.

21 Q. Okay. So as of sitting here right now, that condition has
22 not been met?

23 A. We expect no issues.

24 Q. For the record, it's a yes or no and I just want to make
25 it clear on the record?

1 A. I do not have the specific information with respect to
2 either the exact number of those participants or with respect
3 to Barclays' view as to whether that would be waived if,
4 indeed, that became an issue.

5 MR. ROSNER: Okay. I have nothing further, Your
6 Honor. Thank you.

7 THE COURT: Okay, thank you. Is there anyone else
8 that wishes to examine Mr. McDade? Come forward. Please state
9 your name and identity of the client that you're here to
10 represent.

11 MR. BYRNE: Yes, Your Honor, good afternoon. Larry
12 Byrne from Linklaters. Linklaters, Your Honor, represents the
13 administrators who have been appointed to supervise the
14 insolvency of four Lehman Brothers entities in the U.K. and in
15 Europe.

16 THE COURT: These are the Pricewaterhouse people?

17 MR. BYRNE: Yes, Your Honor.

18 THE COURT: Okay.

19 MR. BYRNE: So we act for Pricewaterhouse who are now
20 the insolvency administrators in the U.K. for these four Lehman
21 Brothers entities who are affiliates of subsidiaries of the
22 debtors.

23 THE COURT: Okay. You may proceed with your
24 questions.

25 CROSS-EXAMINATION

1 BY MR. BYRNE:

2 Q. Good evening, Mr. McDade. The hour's late, so I have just
3 a few questions for you following up on the previous questions.

4 You referred to an intercompany payable in the amount of
5 five billion and an intercompany payable in the amount of eight
6 billion. Do you know when those payables first arose or came
7 into existence?

8 A. No, I do not.

9 Q. When did you first become aware of them?

10 MR. MILLER: Excuse me, Your Honor. I'm not quite
11 sure I understand how that relates to whether the sale should
12 be approved or not. It seems to be the administrator in London
13 is trying to find out information concerning whether it has a
14 claim against this estate, what's going to happen to that
15 claim. It doesn't go to this transaction.

16 THE COURT: Well, let me observe that I have read a
17 number of objections that have raised questions concerning
18 whether this transaction, if approved, would affect the ability
19 of parties-in-interest, including the Pricewaterhouse foreign
20 representatives, I'll call them for these purposes, in being
21 able to pursue a claim for recovery in this estate of the eight
22 billion dollars that, according to the objection that I read,
23 was allegedly swept from LBIE on Friday, a week ago, to the
24 accounts of LBH. And that didn't come back to LBIE on Monday
25 presumably as a consequence of the bankruptcy filing. And so I

130

1 don't know that this goes to the reasonableness of the debtors'
2 business judgment in proposing that this transaction be
3 approved this evening, as much as it goes to the legal affect
4 of such approval in light of the ambiguities -- alleged
5 ambiguities and vagueness -- the alleged vagueness of the asset
6 purchase agreement and the various documents that have been
7 offered up to parties-in-interest.

8 So with that, I overrule your comment and will permit
9 the examination.

10 MR. BYRNE: Thank you, Your Honor. May I proceed?

11 THE COURT: Yes.

12 BY MR. BYRNE:

13 Q. When did you first become aware of these two intercompany
14 payables, the eight billion, the five billion, apart from press
15 reports?

16 A. I followed up post the session that we had yesterday to
17 make sure I had the information.

18 Q. And what information did you learn as a result of that
19 follow-up?

20 A. The previous statements that I made with respect to the
21 nominal amounts.

22 Q. I'm not sure I understand what you're saying.

23 A. LBI has a payable to LBIE. LBIE has a payable to LBH.
24 Those are the figures and data that I researched.

25 Q. And following up to confirm those figures and data, what

1 is it that you looked at?

2 A. I looked at a summary finance document from one of our
3 senior finance officers.

4 Q. That's an internal document at Lehman?

5 A. That's correct.

6 Q. And who is the senior finance officer that had prepared
7 that?

8 A. I don't know who prepared the document. The interaction I
9 had was with a gentleman named Chris O'Meara.

10 Q. I'm sorry, I couldn't hear you.

11 A. Chris O'Meara.

12 MR. BYRNE: Your Honor, I don't think I have any
13 further questions at this time. I would like an opportunity
14 either now or later just to clarify a couple of things you said
15 with respect to the PWC administrator's position. Because
16 they're actually not objecting to this transaction.

17 THE COURT: Oh, great. I assumed because you were
18 asking questions that you were getting in the way of it.

19 MR. BYRNE: No, not at all, Your Honor, we just
20 wanted clarification based on the questions that were asked
21 earlier. You may not have seen, because it did not get
22 electronically filed until shortly before the hearing, what the
23 administrators have filed, which is a response to the proposed
24 settlement, not an objection. And we say in the first line of
25 that response that the administrators have no objections to the

1 approval of this transaction this evening.

2 There are some clarifications we're going to seek,
3 but we can do that later in the proceeding with the Court's
4 permission.

5 THE COURT: Fine. The only thing I read was the
6 declaration that was filed. In order to triage the preparation
7 for this hearing, I read things that I thought would be
8 helpful.

9 MR. BYRNE: Right. We have a declaration from the
10 PWC administrator --

11 THE COURT: That's what I read.

12 MR. BYRNE: Okay. I think the transaction details
13 you're describing might have been in someone else's objection,
14 not in ours.

15 THE COURT: If I misstated the facts it's because I
16 didn't understand --

17 MR. BYRNE: Understood, Your Honor. I have nothing
18 further at this time, Your Honor.

19 THE COURT: Okay. Is there anyone else that would --
20 Ms. Granfield?

21 MS. GRANFIELD: Good evening, Your Honor. Lindsay
22 Granfield, Cleary Gottlieb Steen & Hamilton, LLP on behalf of
23 Barclays Capital.

24 Odd procedural posture. I think that there's going
25 to be very able -- probably not too long an able redirect by

1 the debtor. And that might make it unnecessary for me to ask
2 any questions. And, in fact, if there was a short recess, I
3 might be able to confer with Mr. Miller on what he planned to
4 cover and not make it necessary for me to ask any questions.

5 THE COURT: Well, before taking that welcomed recess,
6 because I think people are probably ready for one, let me just
7 confirm that there is no one else, other than yourself, at this
8 moment, has an interest in asking any further questions of Mr.
9 McDade?

10 MS. GRANFIELD: Very good, Your Honor.

11 THE COURT: I see no one moving in the direction of
12 the podium, and I see no one indicating an interest in asking
13 questions. So I'm going to assume that you are the last
14 possible questioner on cross. And since its now about ten
15 minutes to 8 in the evening and it is warm, and many people are
16 standing, I'm going to propose that we take a break until 8:15.
17 And we'll resume at that time.

18 MS. GRANFIELD: Thank you, Your Honor.

19 (Recess from 7:48 p.m. until 8:45 p.m.)

20 THE COURT: Be seated, please.

21 MR. MILLER: Once again, good evening, Your Honor.
22 Harvey Miller for the debtors.

23 Your Honor, in the interest of expedition, I would
24 offer into evidence the asset purchase agreement among Lehman
25 Brothers Holdings Inc., Lehman Brothers Inc., LB 745 LLC and

1 Barclays Capital, Inc. dated as of September 16, 2008 and the
2 first amendment to the asset purchase agreement among the same
3 parties, Your Honor, dated September 19, 2008.

4 THE COURT: Is there any objection to the admission
5 of the evidence of those two documents?

6 UNIDENTIFIED SPEAKER: Yeah. No, I haven't seen it.

7 UNIDENTIFIED SPEAKER: We haven't been given a copy
8 even.

9 UNIDENTIFIED SPEAKER: Same, Your Honor.

10 UNIDENTIFIED SPEAKER: Your Honor, we would have the
11 additional objection of it's unclear whether this even
12 represents the final asset purchase agreement or whether terms
13 are made to be negotiated.

14 THE COURT: I don't think it needs to represent the
15 final. It's a document that -- assuming the first one is a
16 document everybody's seen, the second one is the only document
17 that may be subject to reasonable objection. And whether or
18 not it is, in fact, the document that would govern the closing
19 is irrelevant to its admissibility. That objection is
20 overruled.

21 As far as the amendment, I'm certainly interested in
22 seeing it. I'm sure others are as well. How many copies are
23 there? Or are there copies?

24 MR. MILLER: As I said last time, Your Honor, modern
25 technology is not what it's all cracked up to be. Your Honor,

1 I have --

2 THE COURT: I would also note that copies of a
3 document, while a courtesy of counsel, are not a condition to
4 admissibility. And if an offer of proof is made as to the
5 authenticity of the document, the fact that it is what it
6 purports to be, which is the second amendment, I'm prepared to
7 admit it notwithstanding the fact that copies are not
8 available, recognizing that there is an objection that is a
9 reasonable one that all other parties to the transaction need
10 to see a copy at some point so they have reasonable notice.

11 MR. MILLER: Your Honor, I would make an offer of
12 proof that this is a document. This represents the asset
13 purchase agreement that's dated as of September 16, 2008, which
14 was attached or filed at 6 a.m., or whatever it was, in the
15 morning, a couple of days ago with a lot of interlineations.
16 This is a clean draft -- a clean copy, Your Honor. This is the
17 execution -- a copy of the execution copy.

18 THE COURT: It is the hand-marked copy typed so that
19 the edits that we saw in handwriting are now incorporated in
20 full font?

21 MR. MILLER: That is correct, Your Honor.

22 THE COURT: Okay.

23 MR. MILLER: I would represent, Your Honor, that the
24 first amendment to the asset purchase agreement, which consists
25 of exactly four pages, dated September 19 -- and this is a copy

1 of the execution copy of that document, Your Honor, which
2 clarifies certain provisions in the asset purchase agreement,
3 and, Your Honor, is part of -- an integral part of the
4 agreement and is signed on behalf of Lehman Brothers Holdings,
5 Lehman Brothers Inc., LB 745 and Barclays Capital.

6 THE COURT: May I simply ask if the witness who's on
7 the witness stand is familiar with that document or had
8 anything to do with its execution, it might be in a position to
9 further authenticate it?

10 MR. MILLER: May I approach, Your Honor?

11 THE COURT: Yes.

12 REDIRECT EXAMINATION

13 BY MR. MILLER:

14 Q. Mr. McDade, are you familiar with the fact that a first
15 amendment was made to the asset purchase agreement?

16 A. Yes, I am.

17 Q. The document which I have shown you, have you seen that
18 document before?

19 A. Yes, I have.

20 Q. Are you familiar with that document?

21 A. Yes, I am.

22 Q. Is that the first amendment to the asset purchase
23 agreement?

24 A. Yes, it is.

25 Q. That was executed on behalf of the debtors?

1 Since Wednesday, when the debtors were freed to go
2 out and shop these particular assets -- you've heard Mr.
3 Ridings testify that he took no affirmative steps to do so.

4 We believe this was a flawed sale process with
5 respect to these assets, a process that appears only to benefit
6 Barclays and the federal government but not the creditors of
7 this estate.

8 Perhaps as importantly, Your Honor, as I'm sure the
9 Court is aware, the economic landscape seems to have changed
10 over the last two days. Yesterday, the U.S. Treasury and the
11 Federal Reserve Board have begun discussions about a potential
12 bailout of financial institutions by the government agreeing to
13 buy distressed mortgages and distressed real estate assets of
14 these financial institutions. Just the hint of that potential
15 bailout has sent the equity of those financial institutions who
16 would be the beneficiary of that bailout soaring.

17 And, yet, the debtors and the Fed seem content or
18 determined that nothing get in the way of this transaction.
19 There is no attempt to determine, based upon the latest events,
20 whether Lehman can be a beneficiary of that potential bailout
21 or whether, in fact, as a result of that potential bailout, the
22 assets to be purchased under this transaction haven't increased
23 significantly in value.

24 And, yet, there has been no renegotiation of a sales
25 price. In fact, there has been a renegotiation of the sales

1 price. It's been a downward renegotiation, as Mr. Ridings
2 testified with respect to the real estate assets.

3 There is no final form of agreement to be approved by
4 this Court. We had a forty-minute session with counsel for the
5 debtors where they outlined to the parties in the courtroom
6 suggested changes. There's no writing. There's no opportunity
7 for parties-in-interest to review that. The first amendment,
8 frankly, was just handed out, and that's been around for a
9 couple of days, I'm told.

10 And, yet -- I'm sorry, since this morning?
11 Apparently they don't know how long it's been around.

12 THE COURT: Mr. Golden, given the pace of this
13 transaction, days merge for all of us and I don't think that's
14 a fair comment.

15 MR. GOLDEN: I'm sorry, Your Honor. You know,
16 everybody's frustrated: the parties, the debtors, the
17 governmental agencies, but so, too, are the creditors.

18 Going forward with this transaction this evening will
19 not allow anybody to assess whether this proposed bailout
20 legislation or any other restructuring alternatives,
21 restructuring alternatives that are very familiar to this
22 Court, such as a debt-for-equity swap of the 150 billion
23 dollars of securities at the holding company, could be a better
24 alternative for the creditors of the holding company.

25 There has simply been no credible evidence adduced at

1 this hearing that the price that Barclays is paying for these
2 assets represents fair value. The appraisals are not in
3 evidence. All you've heard is Mr. Miller discuss the contents
4 of the appraisals. There's no other testimony or evidence that
5 suggests the other assets being purchased by Barclays
6 represents fair value or an attempt to maximize value for
7 creditors.

8 I simply think, Your Honor, for whatever reason, the
9 debtor has failed to meet its burden with respect to the
10 appropriateness of the sale. We have heard the dire
11 consequences as to what will occur or may occur if this
12 transaction is not approved, but we have not heard credible,
13 cogent testimony as to whether the proposed purchase price
14 represents a fair value for these assets.

15 THE COURT: Mr. Golden, in effect, you're asking me
16 to weigh your speculation against their speculation. What
17 you're asking me to do is to weigh the fact that the markets
18 have turned because of the RTC-type announcement made last
19 night against the palpable, potential, devastating damage to
20 the markets to be caused if this transaction is not approved.
21 You've offered no affirmative evidence. Why should I give any
22 weight whatsoever to your argument?

23 MR. GOLDEN: Your Honor, I'm not asking you to allow
24 me to superimpose my business judgment versus the debtors'
25 business judgment. But it is not my burden, it is not the

1 burden of the ad hoc noteholders with respect to this
2 transaction, it is the debtors' burden. And they have not,
3 likewise, adduced any credible evidence as to what will happen
4 if this transaction is not approved this evening.

5 And, Your Honor, what we think, based upon the facts
6 and circumstances as we understand them, that this situation --

7 THE COURT: You weren't listening to Mr. Ridings'
8 proffer, apparently. Because in unrebutted testimony he
9 indicated through the proffer that the markets, in effect,
10 would tank. Your cross-examination didn't even touch that
11 subject.

12 MR. GOLDEN: Your Honor, you're right. We did not
13 cross-examine that. Frankly, I don't believe that Mr. Ridings
14 could credibly testify as to what would happen if these -- if
15 this particular transaction was not consummated this evening.

16 We think, Your Honor, that what this situation cries
17 out for is a denial without prejudice, but really a brief
18 delay. Not a delay for weeks or months, but a delay so as to
19 determine once and for all, has, in fact, every viable
20 alternative been considered in order to maximize the value for
21 assets.

22 I said to the Court on Wednesday -- as we sat here on
23 Wednesday and as I sit here this evening, we don't know whether
24 this transaction represents the best viable option for these
25 assets. And we can't know this because we believe there was an

1 inappropriate and flawed marketing process with respect to
2 these assets.

3 A brief delay would have several beneficial effects
4 in our view. We'd allow the parties to finally negotiate a
5 final asset purchase agreement --

6 MR. MILLER: Excuse me, Your Honor. Is Mr. Golden
7 testifying?

8 THE COURT: I think what Mr. Golden is doing is
9 converting his argument into what amounts to a request that I
10 not approve the transaction this evening so that more time can
11 be spent to evaluate transactional alternatives, or
12 alternatively, to evaluate whether or not this transaction, as
13 it has evolved at the last minute, may, in fact, be the best
14 transaction. That's my interpretation. I don't consider this
15 to be testimony, I consider it to be an argument.

16 MR. GOLDEN: Thank you, Your Honor.

17 THE COURT: Have I understood your argument?

18 MR. GOLDEN: You have, perfectly.

19 THE COURT: Thank you.

20 MR. GOLDEN: If we were to have a brief delay, Your
21 Honor, as I said, there would be several benefits that could be
22 achieved. A final form of agreement could be finally agreed to
23 and produced and put into evidence. What's been put into
24 evidence to date is an agreement that's not final with material
25 terms left to be negotiated. So, frankly, I don't know exactly

1 consider it, I denied it.

2 MR. GOLDEN: We think the appropriate course of
3 action, Your Honor, is to issue a denial of the motion without
4 prejudice so as to allow the process to unfold in a way that's
5 a little bit more transparent, a little bit more conducive to
6 allow parties -- all parties-in-interest to understand once and
7 for all whether this represents the highest and best value with
8 respect to these transactions. Thank you.

9 THE COURT: Thank you, Mr. Golden.

10 MR. NOVIKOFF: Good evening, Your Honor. Howard
11 Novikoff, Wachtell, Lipton, Rosen & Katz on behalf of JPMorgan
12 Chase Bank N.A.

13 Your Honor, we are not here to urge the Court not to
14 act tonight. We think Your Honor should act tonight. And we
15 appreciate the speed with which the parties have been moving.

16 We are here and we filed a limited objection because
17 we are concerned that there's a lack of clarity in at least two
18 significant respects and the way that the order affects
19 JPMorgan. And there is one matter not requiring relief of the
20 Court but a matter we do want to bring to the Court's
21 attention.

22 First, as Your Honor may recall from argument on
23 Tuesday, JPMorgan is Lehman's major clearing bank. In that
24 role, it maintains literally hundreds of clearing, operating,
25 settlement and other accounts. And in that role it makes

1 advances against securities collateral on a daily basis.

2 As of this morning, the amount of the advances, Your
3 Honor, was approximately 23.2 billion dollars. Against which,
4 JPMorgan is holding collateral.

5 In addition, Your Honor, JPMorgan is a major
6 counterparty with Lehman and various types of what we refer to
7 as Safe Harbor transactions, such as security lending
8 arrangements, repurchase agreements, ex-contracts and other
9 similar agreements. And with respect to many of those it also
10 holds collateral and holds setoff rights. And, as Your Honor
11 heard in detail on Tuesday, we have a guarantee from LBHI,
12 which is secured by collateral, which LBHI values at
13 approximately 17.9 billion dollars.

14 We have heard that as part of the purchased assets,
15 the debtor -- excuse me, Barclays is seeking to purchase 47.4
16 billion of securities. While we've been given that as a
17 number, we don't know, there's simply a lack of clarity as to
18 whether any of those securities are securities that are held by
19 JPMorgan as collateral as I just described.

20 A difficulty with the order, Your Honor, if that was
21 the intent, is it does not provide for any payment to JPMorgan
22 for that collateral. And in view of the fact I described
23 collateral -- collateral securing obligations of over forty
24 billion dollars, saying we would have access to a pool of 1.7
25 billion, along with everybody else chasing that pool, would not

1 be very satisfactory.

2 I have sought clarification and I believe obtained
3 clarification from Barclays. That, in fact, they are not
4 seeking or are not treating as purchased assets any of those --
5 any of the collateral that JPMorgan is holding for that. And I
6 would like that stated on the record, otherwise we need to
7 correct the order.

8 THE COURT: You're going to have to move to a
9 microphone, and state your name.

10 MS. GRANFIELD: Good evening. Lindsee Granfield from
11 Cleary, Gottlieb, Steen & Hamilton LLP for Barclays Capital.

12 It's our understanding that with respect to the
13 purchase assets in this transaction that they do not include
14 the assets that JPMorgan is holding as its collateral.

15 THE COURT: Is that satisfactory?

16 MR. NOVIKOFF: I believe she stated it's Cleary
17 Gottlieb's understanding. I'd like to know if that is after
18 consultation with the client.

19 MS. GRANFIELD: That is.

20 MR. NOVIKOFF: The second, as I mentioned, Your
21 Honor, that JPMorgan is a major counterparty in various Safe
22 Harbor contracts. The proposed order contains an injunctive
23 provision which affects the debtors' rights in property of the
24 estate. It involves an ability on the part of Barclays to
25 choose contracts in the future for assignment and assumption.

1 And in the latest version it contains an incomplete protection
2 for Safe Harbor contracts. I would just like a clarification
3 to the effect that -- and I suspect there may be other parties
4 looking for this, that nothing in the proposed sale order
5 affects any right of JPMorgan under or with respect to any
6 securities contract, commodities contract, forward contract,
7 repurchase agreement, swap agreement or master netting
8 agreement, and I use each of those terms as defined in the
9 Bankruptcy Code, Your Honor, to exercise any contractual right.
10 And I use that term as well. Contractual right is defined in
11 the relevant sections of the Bankruptcy Code. Of a kind
12 described in Sections 362(b)(6), (7), (17) or (27), 362(o) and
13 Sections 555, 556, 559, 560, or 561 of the Bankruptcy Code.
14 I've intentionally done it, Your Honor, in that way by making
15 direct reference to the Bankruptcy Code terms. And we were
16 looking just for a clarification and understanding. But that
17 is the effect of the order so as not to affect the Safe Harbor
18 contracts.

19 THE COURT: We need a clarification, confirmation?

20 MR. NOVIKOFF: I need confirmation. And that one, I
21 believe I need from both, the debtor and Barclays, Your Honor.

22 MR. MILLER: Debtor has no objections.

23 MR. NOVIKOFF: Okay. Now --

24 THE COURT: Do we have it, I don't think so.

25 MR. NOVIKOFF: And just to be clear I'm looking for

1 that as it relates to the proposed sale order. There was an
2 order entered today commencing the SIPC liquidation which had
3 limited effects, and I'm not challenging that. I'm just
4 talking in terms of anything added by the proposed sale order.
5 That does not deal with secured party rights, secured netting
6 rights.

7 MS. GRANFIELD: Mr. Novikoff had pointed out that the
8 section that had been added to the sale order went through a
9 lot of the Safe Harbor terms. That may be just a mistake,
10 didn't add in every single section of the code that people
11 usually colloquially refer to as the Safe Harbors. So with
12 respect to those few things that weren't added to the order, we
13 recognize that the Safe Harbors exist. And we understand that
14 we are not purchasing the things that are either his collateral
15 or that we can stop the Safe Harbors from being affected.

16 THE COURT: Let me clarify what you just said because
17 we're talking about the form of order and the impact of the
18 order, if any, on what we were globally talking about the
19 universe at Safe Harbor provisions, as those terms are
20 generally understood in the Bankruptcy Code to deal with repo
21 swaps, forward contracts, securities contracts and the like.
22 And by making the statement that I just made, I am not
23 intending to leave anything out.

24 I simply want to confirm, as Mr. Novikoff has sought
25 to confirm, that it is intended that those provisions, to the

1 extent applicable outside of bankruptcy are, in fact, all
2 governing. And that nothing in the sale order is intended to
3 impair, in any respect, those contractual rights.

4 MS. GRANFIELD: Yes, Your Honor.

5 THE COURT: Thank you.

6 MR. NOVIKOFF: Thank you, Your Honor. And then the
7 one point I needed to inform Your Honor concerning -- as I've
8 mentioned, JPMorgan maintains literally hundreds of accounts
9 for Lehman Brothers Inc. And they continue, through the day
10 today, to continue operating those accounts. During the course
11 of the day, it was either Lehman Brothers or the SIPC trustee
12 that, during the course of the day, was the owner of those
13 accounts.

14 At this point, we are not sure whether Barclays
15 intends to use those accounts on Monday or not. We believe
16 that they will, in fact, need to use those accounts in order to
17 continue their operations. There will be a complication in
18 that when securities and cash hit those accounts on Monday, we
19 are not going to know, unless somebody tells us, whether those
20 securities and cash belong either to Barclays or to the SIPC
21 trustee; that is, are they attributable to assets that have
22 been purchased by Barclay or they have not.

23 So between now and then we are perfectly willing to
24 work with the SIPC trustee and Barclays to create a protocol so
25 that we can get instructions in how to deal with that, but we

1 have to get that resolved or we will not be in a position to
2 operate those accounts. Also, Your Honor heard that DTC, the
3 clearing organization, insisted and negotiated heavily during
4 the day and received potentially billions of dollars of
5 collateral to protect it against the possibility of liability,
6 overdrafts, etcetera, with respect to its clearing operations.

7 In the ordinary course, JPMorgan also picks up those
8 type of obligations. Indeed, last night, picked up -- they had
9 to make a fail advance to allow clearing to go forward of over
10 seven billion dollars. If our accounts are going to be used to
11 effect a smooth transition until Barclays has its accounts set
12 up with another institution, we're going to have to work with
13 them and with SIPC to make sure that -- whether it's a
14 guarantee, an indemnity, or some other procedures are put in
15 place so that JPMorgan is not at risk for providing that
16 transition. Again, we are willing to work with them over the
17 weekend to make sure that works. If, in fact, they have other
18 accounts that they can use on Monday other than ours, we're
19 delighted to do that. But we did want Your Honor to know that
20 that's something that has to be resolved from our perspective,
21 and it is not resolved yet.

22 THE COURT: Thank you for that. And let me clarify
23 that the statements you've just made with regard to transition
24 issues that are quite significant from the perspective of
25 JPMorgan Chase are not issues that affect the Court, but they

1 are rather closing issues that must be addressed in order to
2 effect an orderly transition. Correct?

3 MR. NOVIKOFF: That's correct, Your Honor. We are
4 not seeking relief from the Court on those issues, but if we
5 fail to reach agreement I did not want JPMorgan's credibility,
6 or, frankly, my firm's credibility, to be affected because we
7 didn't let you know that those issues existed.

8 THE COURT: Thank you.

9 MR. NOVIKOFF: Thank you.

10 THE COURT: Mr. Sabin?

11 MR. SABIN: Your Honor, I know the hour is late.
12 I'll be very brief. There is but one issue remaining, I
13 believe, that is not yet resolved and it arises in connection
14 with that part of this transcript, if you will, when it becomes
15 a transcript, that otherwise was raised in ours, and that is
16 related to the small amount, allegedly, of IP assets that do
17 not belong to any of the debtors that we do not believe this
18 Court has jurisdiction to sell free and clear. So assuming we
19 can solve it by drafting in the order, and assuming that's
20 acceptable to the debtors and purchaser, hopefully we could
21 schedule those assets, we could define them in the appropriate
22 places, carve them out from the relief otherwise with respect
23 to the balance of the purchase assets, which are assets of the
24 debtors. If that can be done then the entirety of our concerns
25 and our limited objection of the Harbinger funds would be

1 resolved.

2 THE COURT: All right. I hear that argument, and I
3 don't know if anybody on the debtors' side, as a matter of law
4 or as a matter of structure, would argue that notwithstanding
5 what Mr. Sabin has said it may be possible for those IP assets
6 to be transferred free and clear. I'll be the first to admit
7 that I don't know, based on this record, anything about where
8 the IP resides. And my best recollection of the statements
9 made by Lori Fife is that she wasn't so sure where, within the
10 corporate structure, those assets reside. So based on the
11 record, I think it would be hard to override Mr. Sabin's
12 concern, but I'm not eliminating the possibility that the
13 debtor could make such an argument, and it sounds like it's a
14 drafting issue.

15 MS. GRANFIELD: Your Honor, it's not a drafting
16 issue, quite.

17 THE COURT: You're going to have to talk by a
18 microphone.

19 MS. GRANFIELD: I'm sorry.

20 THE COURT: Then you're going to have to make an
21 argument --

22 MS. GRANFIELD: No, I understand, Your Honor.

23 THE COURT: -- as to how, as a matter of bankruptcy
24 law, assets that are not residing within this debtor or its
25 property-owning affiliate can be the subject of a free and

1 clear order.

2 MS. GRANFIELD: No, I understand. I understand the
3 argument and Your Honor's view. Obviously, a few things in
4 terms of our ability to schedule those assets -- it may be
5 drafting and you're right. We can see on a recess or as we're
6 trying to do an order, whether we can come to agreement or not.
7 But to say that we don't want to be put into a position of the
8 proverbial death by a thousand cuts, where Barclays --

9 THE COURT: I think I'm in that position right now.

10 MS. GRANFIELD: -- you know, where Barclays obviously
11 has made a tremendous effort in trying to get to a position to
12 be able to close this transaction, so we'll see, Your Honor.
13 But I just wanted to not be too quick, and I understand the
14 legal argument and Your Honor's view -- but too quick that it's
15 just a drafting --

16 THE COURT: If you want to think about an argument
17 that would permit this Court to convey nondebtor property free
18 and clear, I'm certainly receptive to creativity. But I think
19 that at this hour, it may really be a drafting issue or an
20 issue of risk assessment.

21 MS. GRANFIELD: No, I think it's the latter. So we'd
22 have to -- it's really just having the ability to talk to the
23 client. And we'll have to make a decision in terms of,
24 obviously, the deal was we're buying the assets free and clear.
25 But we'll leave that to the recess.

1 THE COURT: Well, I think it was Mr. Miller who
2 mentioned that 10:45 was a witching hour. And I haven't heard
3 all the objectors. So absent a miracle, I think it's going to
4 be hard to make that deadline.

5 MR. MILLER: I didn't understand that PWC was
6 objecting, Your Honor. I thought we went through that earlier
7 today.

8 MR. FLICS: Your Honor, Martin Flics of Linklaters
9 for the administrators. Just as Mr. Novikoff and some others
10 have had some important clarifying points, we do as well. And,
11 in fact, the first point may relate to the very last point that
12 was just addressed. These businesses have, for many years,
13 operated as one. And what is being proposed tonight is
14 something very ambitious. And as we've indicated, we do not
15 oppose it. But it is very ambitious. It is the complete
16 separation of these businesses that have operated as one.

17 The asset purchase documents, as we have pointed out
18 in our response and in the declaration, do not do a perfect job
19 of effecting that separation. There are a number of issues
20 that need to be addressed. Those issues are important not only
21 to the European entities, but as we've heard in the last round
22 of discussion, they're probably important to the debtors as
23 well, in effecting the sale. For example, there is
24 intellectual property and IT all over the enterprise that is
25 shared. Some of that intellectual property is owned by

1 European entities and is used by the American entities.

2 That intellectual property surely cannot be
3 transferred tonight. Those entities and administration surely
4 cannot have their property compelled to be transferred. I
5 assume no one would dispute that. On the other hand, equally,
6 there are assets owned by the U.S. entities that are used in
7 the European business. There are client contracts that are
8 shared. There are source codes that are shared. There are
9 issues of confidentiality and access to source code. There's
10 various ownership rights in the IT and in the process.

11 There are a lot of issues that are very important to
12 both sides. These issues have not yet been addressed. And
13 they need to be addressed. During the course of the last
14 couple of days, we have communicated a number of the points to
15 Weil Gotshal and to the debtor. We have made our points in our
16 responsive pleading. We understand that some of them may have
17 been addressed in the proposed amendment, but we don't know.
18 We understand that others have not, but we don't know which
19 have been and which have not been.

20 We are prepared to accept a representation and
21 confirmation that all of the issues that we have set forth in
22 our response and in our declaration will be negotiated in good
23 faith, expeditiously. As I said, they're very important to the
24 administrators, and we think they're also important to the
25 estate. There are issues of our access to books and records

1 that we think we have a reasonable right, not to mention a
2 statutory obligation, to review, and all of the proprietary
3 information that is shared across the IT and intellectual
4 platforms. So as to the first of the two issues that I wanted
5 to address this evening, I would like to know -- we're not
6 going to negotiate those standing here, for sure.

7 THE COURT: Certainly not in my presence.

8 MR. FLICS: And I'm certainly not capable of doing
9 so. But we have had representations informally from people in
10 the course of this evening that they are prepared to do so. We
11 will accept that representation as a means of going forward
12 with the --

13 THE COURT: Are you also reserving rights in respect
14 to that representation?

15 MR. FLICS: -- we are absolutely reserving rights in
16 the event that we are not able to achieve a satisfactory
17 resolution on the issues that we have put of record.

18 THE COURT: Do I understand that your principal
19 concern relates to the very same intellectual property rights
20 that we were talking about moments ago, or is it different?

21 MR. FLICS: Actually, I have no idea. All I know is
22 that they have mentioned cryptically intellectual property of
23 nondebtor, and there is some issue about its ability to be
24 transferred. That happens to be an issue because I know that
25 the European entities hold some intellectual property that is

1 the debtors but not subsidiaries, I don't have a problem. And
2 then my client would not be enjoined pursuant to the paragraph
3 on -- there is a paragraph in here enjoining parties against
4 bringing claims that you're not supposed to bring or that are
5 sold free and clear.

6 But if "or any enterprise of the debtors" is
7 interpreted as subsidiaries of the debtors, then we run into
8 the issue that Your Honor started to discuss earlier. What is
9 the authority for a creditor of a nondebtor to be told that its
10 business was transferred free and clear of liens, claims,
11 interest, successor liability? Now, if Mr. Miller is right, or
12 his suggestion turns out to be true of a possibility that the
13 businesses of the subsidiaries were not transferred, fine, then
14 presumably the action may not be meritorious unless there's
15 another good theory. And there are other theories besides
16 successor liability.

17 But, again, we're not asking Your Honor, and it's not
18 before Your Honor tonight to decide whether creditors of the
19 nondebtor subsidiaries who have causes of action as a result of
20 this have meritorious ones or not. I'm here on the black-
21 letter law, for all the reasons in our objection, which I will
22 spare Your Honor and not repeat, because I know you read them,
23 however quickly. I know Your Honor understood them. We think
24 they're compelling and ironclad. But I'm not going to repeat
25 them. For all those reasons, we don't think this language, "or

1 any enterprise of the debtors", can be interpreted to mean
2 subsidiaries of the debtors within the contours of the law.
3 Cannot do, this was overreaching, if that's what this means.
4 And this can be fixed either by striking the words "or any
5 enterprise of the debtors", or simply Your Honor saying -- Your
6 Honor issues this order, even though the drafting was proposed
7 by others, saying when you sign this you don't intend that
8 enterprise means subsidiaries of the debtors. It's as simple
9 as that.

10 THE COURT: I'm going to give others an opportunity
11 to comment on this point, because I know from experience that
12 the no successor liability provision is more often than not of
13 extraordinary importance to the purchaser. And if the
14 purchaser is willing, through counsel, to confirm that "or any
15 enterprise of the debtor" is as that term is used in paragraph
16 10(c) of the order, is not intended to extend to any subsidiary
17 of the debtors, that confirmation or an edit that's consistent
18 with that confirmation would seem to satisfy you. Correct?

19 MR. BIENENSTOCK: Yes. I just have to say, and I
20 apologize for the repetition, that this is where we just have
21 to rely on the Court. Of course, a purchaser will want all the
22 protection it can get. This -- regardless of its desire -- I
23 mean, if I'm the purchaser, why wouldn't I say no, I want that
24 to mean subsidiary. Of course I would say that.

25 THE COURT: No, the problem with --

1 MR. BIENENSTOCK: But it's illegal.

2 THE COURT: -- I don't want, at the moment, without
3 hearing from purchasers' counsel, to start to comment on my
4 interpretation of this language at this hour. But I could do
5 so. And I don't want to do that without knowing what position
6 the purchaser takes with respect to it. I'm offering that up
7 as an opportunity. Otherwise, I may say some things that you
8 might not want to hear.

9 MR. BIENENSTOCK: Thank you.

10 MS. GRANFIELD: Good evening, again, Your Honor.
11 Lindsee Granfield, Cleary, Gottlieb, Steen & Hamilton, LLP, on
12 behalf of Barclays Capital. The problem -- I have no problem
13 with Mr. Bienenstock's first point, but the coupling of the two
14 do cause a problem because, essentially, I see the parties to
15 the asset purchase agreement are the debtors. Those parties,
16 up until the time that the trustee came in, controlled their
17 subsidiaries. These are, I think, all wholly owned
18 subsidiaries or for the most part wholly owned subsidiaries.
19 The trustee came in, exercising his control in terms of his
20 business judgment to exercise his control here.

21 With respect to claims that in their exercising their
22 control over the subsidiaries that there should be an
23 allocation of the purchase price with respect to what's
24 happening here, you know, obviously, I agree with Mr.
25 Bienenstock, that doesn't affect the purchaser, and so we have

1 no objection to it. But if he's saying he wants his cake and
2 he wants to eat it too, which is he wants to make claims
3 against the proceeds, like everyone's just agreed, and now he
4 wants to keep open the ability not just to question the
5 business judgment of the controlling parties of the
6 subsidiaries in entering into the transaction, but he wants to
7 leave Barclays open. Barclays is making this transaction
8 possible to claims by subsidiary creditors that Barclays is a
9 successor and Barclays, after having had to renegotiate this
10 deal many times over the last few days, lost the 700 million
11 dollars in cash it was originally going to receive, lost other
12 benefits under the deal. No, we can't agree to that. And I
13 would have to go talk to my clients about how strongly we feel
14 about that. But if it were up to me, that would be it. That
15 would be the final cut.

16 THE COURT: Okay. Now, I know what you think.

17 UNIDENTIFIED SPEAKER: Your Honor, you ready for the
18 next objector or --

19 THE COURT: Well, we sort of have a pregnant pause
20 here. This is an unresolved issue, and I don't mean to
21 diminish the significance of it by describing it as a drafting
22 point because it's not. The problem with the language as it's
23 presently drafted is that it's wildly ambiguous. The term
24 enterprise is not defined. And in common parlance it could
25 include joint ventures, other business activities. It's not

1 limited to nor does it address subsidiaries, it's actually far
2 broader. And I suppose it was made as broad as it was made
3 deliberately.

4 I don't know what the term is intended to convey in
5 terms of its meaning. Nor do I believe, based upon my looking
6 at it for the first time and not hearing any discussion as to
7 what was the intent in the drafting of it, that I'm in a
8 position now to do what Mr. Bienenstock has asked me to do,
9 which is to do God's work.

10 I believe that if it's left as it is, without further
11 definition, that we'll be revisiting this another day. And I
12 certainly don't want to invite further potentially burdensome
13 litigation over the point. Nor do I have any idea as to
14 whether or not what we're talking about is a theoretical
15 discussion, which I'm happy to engage in at any hour, or a
16 practical discussion involving meaningful rights of Walt Disney
17 Company. Based upon the pleadings filed by Mr. Bienenstock on
18 behalf of his client who is still objecting and the questioning
19 that he has presented of witnesses this evening, it's apparent
20 that he is doing what he can do to protect claims against an
21 identified counterparty. I don't know what those claims are at
22 the moment in terms of their net value, and I don't need to
23 know.

24 For purposes of this order, however, I'm going to
25 need to look at it very carefully because this is one

1 highlighted example of provisions in a sale order that I had
2 not had a chance to review, partly because it's now 10:33 and
3 because I haven't had a chance yet to review the order although
4 I promise I will do so as expeditiously as I can and given the
5 fact that there is an objector waiting in the wings --
6 actually, it is a wing over there, we're not getting this done
7 before 10:45. That's apparent. I'm going to make the
8 following suggestion, and I'm not trying to delay anything.
9 I'm going to hear all the objections this evening. I'm going
10 to hear the debtors' response to those objections, and I think
11 that Mr. Miller, or any other member of his team that he
12 designates, is entitled to speak to the Court while all of this
13 is fresh. But it's also clear to me that assuming I rule, and
14 I'm going to rule one way or the other this evening, in favor
15 of the transaction and an order needs to be entered, I think
16 that everybody should be spending a little bit more time than
17 we have this evening since it's no longer critical in terms of
18 timing to make sure that language issues, such as the issue
19 identified by Mr. Bienenstock, are addressed to the
20 satisfaction of everyone involved in the transaction.

21 I have reserved, just in case it might be needed,
22 this courtroom for tomorrow morning at 10 a.m. I'm not
23 suggesting that it's going to be necessary for anybody to come
24 back. But in the same way that parties mentioned to me that
25 10:45 this evening was a time that I might take into

1 consideration, I wanted you to know that I didn't have any idea
2 one way or the other as to how long this hearing would last or
3 how much time would be required to address the many objections
4 that float in, particularly at the last minute. So to the
5 extent that it's not critically important to the transaction
6 that an order be entered this evening, I'm going to suggest
7 that time be spent to make sure that it's right and that I've
8 had a chance to consider it fully so it can be entered tomorrow
9 morning, assuming that I approve the transaction. That's my
10 comment with respect to this language point. Mr. Rosner?

11 MR. ROSNER: Thank you, Your Honor.

12 MS. GRANFIELD: I apologize, Your Honor. I apologize
13 to Mr. Rosner.

14 THE COURT: Once again, for record purposes, I just
15 think you're too far away from the mike unless you speak at the
16 podium.

17 MS. GRANFIELD: I apologize, Your Honor, and I
18 apologize to counsel. Just --

19 THE COURT: This is Lindsee Granfield speaking on
20 behalf of Barclays.

21 MS. GRANFIELD: Lindsee Granfield speaking on behalf
22 of Barclays. I wanted to -- just because obviously we did not
23 have an opportunity to respond in writing to the different
24 arguments or Mr. Bienenstock's writing just if I may, or if
25 it's all right with Your Honor, I'd like to cite and I'd like

1 to hand up to Your Honor the order authorizing a similar
2 transaction in the Refco Chapter 7 case where exactly the same
3 language on successor liability was used, if that is
4 permissible?

5 THE COURT: It's permissible but it's completely
6 unnecessary.

7 MS. GRANFIELD: Okay.

8 THE COURT: And I suggest that whatever language
9 appears in any other order is of no significance to me. Just
10 because something was entered in another case because it wasn't
11 picked up by a parting interest who was concerned about it does
12 not, to me, influence this outcome.

13 MS. GRANFIELD: Very well, Your Honor.

14 MR. ROSNER: Thank you, Your Honor. David Rosner,
15 Kasowitz, Benson, Torres & Friedman on behalf of the Bay Harbor
16 Entities. And to state something obvious, there's clearly some
17 momentum behind this takeover of this company and we recognize
18 that. And we recognize that in making our objection, and we
19 recognize that there are some very important human elements to
20 the transaction that I know in the dollars and cents world of
21 bankruptcy sometimes people do lose sight of and I think that
22 on all sides here nobody has lost sight of them and I think
23 that they are important.

24 One of the main arguments, and I understood
25 Mr. Golden when he said it and I thought it was right even

1 though it may not be the most appealing thing to say but it is
2 right that this global markets argument is not really directly
3 on point as to what is being done in front of Your Honor in
4 terms of this estate and what is happening to creditors.
5 Though I understand that the Court does take a macro view of
6 certain things, but one of the arguments in favor is that
7 getting this deal done will build confidence in the market and
8 that's kind of just been taken as a given, almost, by many of
9 the parties here. People can look at the way this transaction
10 actually got created and determine whether Barclays' behavior,
11 whether the position that Lehman found itself in, whether that
12 is market confidence building or if that is detrimental to the
13 market, nobody really knows. And as I think we've seen over
14 the last couple of weeks, nobody really knows a lot about when
15 people make moves -- people in positions of power make moves
16 that they think are going to stabilize. Perhaps they are
17 really unstabilizing. But what you're being asked for here to
18 do today is to be a federal court granting its imprimatur on a
19 transaction where we know -- and the PWC as the administration
20 of a U.K. entity has submitted a declaration that eight billion
21 dollars was transferred from the U.K. entity into the United
22 States rendering that entity unable to trade, delisted,
23 insolvent and that money disappeared and that money is gone.
24 And by money, I mean money and securities. Now, I will
25 respectfully disagree with you, Your Honor, on some things that

1 you have said and we have heard tonight. Unquestionably, you
2 wear the robe and this is your courtroom and you make the call.

3 THE COURT: No, this is our courtroom. It's not my
4 courtroom. This is the people's courtroom, but I'm not
5 Judge Wapner.

6 MR. ROSNER: Clearly, Your Honor. Clearly.

7 THE COURT: This is -- I'm serious about this. I
8 feel very strongly that we're here for a public purpose and my
9 name just happens to be on the door.

10 MR. ROSNER: I appreciate that, Your Honor, very
11 much. And what I will say is that I do respectfully disagree
12 with Your Honor as to whether this process comports with due
13 process as it's understood under the Bankruptcy Code and as
14 it's understood under the Constitution. It's an important
15 point. It is one that has been discussed tonight to some
16 degree but it is one that Your Honor did speak to quite
17 directly earlier, and I took those points and I just want to
18 state for the record that our view is that the eight billion
19 dollars has not been investigated. Nobody knows how that
20 happened. Nobody knows who knew about that transfer. Nobody
21 knows whether -- and by nobody here in our people's court, I'm
22 including Your Honor as saying nobody knows that, because Your
23 Honor certainly doesn't know because no one has been able to
24 present evidence to Your Honor as to who was involved in the
25 transfer and --

1 THE COURT: I'm having a problem with this argument
2 right now, so you might as well know it rather than continue
3 it. I don't understand the relevance of this. I understand
4 that it's a big number, it's a huge number. And I understand
5 that you've asked questions of Mr. McDade about his knowledge
6 of the transaction, and he didn't provide a lot of information.
7 And I paid attention to the fact that he didn't provide a lot
8 of information. But it made no impact on me because I'm
9 confident I'm going to learn a lot about this in the course of
10 this case. The question that I have for you, and you're
11 pressing this point now, is what does this have to do with
12 whether or not it is in the best interest of this estate to
13 approve this particular transaction which is the only available
14 transaction tonight? What does this have to do with what we're
15 here to consider?

16 MR. ROSNER: What it has to do with, Your Honor, is
17 akin to what you were talking about, about the terms of the
18 order, is that if you approve this sale and if you permit an
19 order to be entered like this sale order then all those
20 securities that were transferred from the U.K. to the U.S. are
21 now going to be transferred to Barclays and that will be it.
22 And anybody's rights --

23 THE COURT: I thought this was a cash sweep. Is this
24 a securities sweep?

25 MR. ROSNER: As I understood, there are going to be

1 putting this off is somehow a plus for the markets? Was that
2 your assertion?

3 MR. ANGELICH: Indeed, Your Honor. It may very well
4 be. This week we've seen an improvement in the markets. There
5 has been an opportunity for stabilization for --

6 THE COURT: I'm sorry, but I've been down this road
7 with other arguments in terms of relative speculation and I
8 think I addressed it with Mr. Golden when he was pressing me
9 hard on that very same point. So I've heard it, and I will
10 consider it.

11 MR. ANGELICH: Thank you, Your Honor.

12 THE COURT: Is there anyone else in the courtroom who
13 wishes to be heard? All right. We go to the telephone list
14 and I'm not sure how many people who are participating by phone
15 are objectors. Please identify yourself and speak up.

16 MR. KADEN: Good evening, Your Honor. It's Greg
17 Kaden at Goulston & Storrs on behalf of two clients,
18 Interactive Data Corporation and 125 High Street, L.P., each of
19 which filed an objection. I'll start with Interactive Data
20 Corporation.

21 Some of my objections have been -- or reservations of
22 rights, so to speak, have been raised already so I'll try to
23 make it brief and hopefully incorporate the concessions that
24 have been made in response to those similar objections.

25 Interactive Data Corporation, to begin with, along

1 with its affiliates, provide data and related services to the
2 debtors and their affiliates, pursuant to a global services
3 agreement. The global services agreement sets forth universal
4 terms and conditions for the specific projects that Interactive
5 undertakes for the debtors and affiliates. Now, those specific
6 projects are governed by other agreements called schedules.
7 But the schedule is subject to all of the terms and conditions
8 of the global services agreement.

9 Now Interactive compared -- in the limited time that
10 we have, compared the agreements that the debtors proposed to
11 assume and assign against its own books and records but simply
12 has not been able to determine, with any certainty, which
13 agreements the debtors intend to assume and assign.

14 With that said, we would first ask that the debtors
15 and Barclay work with Interactive to determine which contracts
16 are being assumed and assigned. I believe that the parties
17 have already undertaken to do that, but given that I've been a
18 little bit handicapped on the phone, I just want to make sure
19 that we have confirmation of that for the record.

20 MR. MILLER: Yes, sir.

21 THE COURT: I don't know if you heard Mr. Miller but
22 I believe he confirmed it.

23 MR. KADEN: Okay. Is that the case?

24 THE COURT: Yes, that is the case.

25 MR. KADEN: All right. Moving on then, Interactive

1 believes that the global services agreement must be assumed and
2 assigned together with any schedule that Barclay is purchasing.
3 That's because they're interrelated and we think that the
4 global services agreement provides the master terms and
5 conditions for the schedules. It actually got intertwined with
6 the schedules. So we respectfully request either that the
7 parties agree to that proposition on the record, namely that
8 the schedules can't be assumed without the global services
9 agreement also being assumed. Or if we can't get that granular
10 at this point, simply confirmation of the issue can be tabled
11 for purposes of today's hearing, without prejudice to
12 Interactive's right to raise the issue post-closing.

13 THE COURT: Is there anybody here in a position to
14 comment with regard to that statement?

15 MR. MILLER: Not the debtors, Your Honor.

16 MS. GRANFIELD: Lindsee Granfield, Cleary Gottlieb
17 Steen & Hamilton, LLP on behalf of Barclays Capital. I think
18 we indicated to the Courtroom, when Your Honor was out of the
19 courtroom, that in working through the issues of the assumed
20 contracts, that we would seek to resolve those issues. The
21 contracts that are the closing contracts, we are asking Your
22 Honor to find are assumed because with respect to many of them
23 they are needed to operate. For instance, the Lehman space on
24 Seventh Avenue and the trading floors there, and other
25 infrastructure in many, many different places. And therefore

1 not to have -- or to have some cloud would be a problem.

2 But having said that, in terms of trying to work out
3 with the counterparties to assume contracts, are there issues
4 about identification? Is there an issue that -- what's the
5 full contract? We obviously realize we have to live within the
6 bounds of 365 in terms of assuming a full contract, can't break
7 up the contract, have to pay the cure cost. Plus, in terms of
8 any accrued amounts, when we assume the contract, even if
9 accrued amounts aren't due yet but then the due date comes up,
10 that's going to be for our account. So that's pretty much the
11 comfort I can give at this time.

12 THE COURT: You don't have to agree that's sufficient
13 but that's all you're getting.

14 MR. KADEN: Pardon me, Your Honor.

15 THE COURT: I said, you don't have to agree right now
16 that that's sufficient but I've heard what she said and I think
17 that's all you're getting in court this evening. Is that
18 satisfactory?

19 MR. KADEN: I guess it's not satisfactory to the
20 extent that these documents are -- the two agreements are
21 physically separate documents. So, to the extent we're talking
22 about assuming all the benefits of one contract, if we can
23 agree that it's one contract, then of course we have no
24 objection. But we just don't know whether the debtors or the
25 Barclays will have an issue that these are, in fact, separate

1 contracts and they don't actually go hand in glove together as
2 part of the assumption and the assignment.

3 So I guess it could be a moot point that we can't
4 even tell whether it's in on the list. For all we know the
5 master agreement already is on the list. But I guess, to the
6 extent I popped a hole into the current circumstances, I would
7 like to reserve the right to raise the argument, with respect
8 to the global services agreement, that that also must come
9 along with any assumption and assignment of the schedules.

10 To the extent that we can't consensually agree or
11 indeed to the extent that the global services agreement isn't
12 already sitting on the schedules to be assumed and assigned or
13 a different name that we simply just can't identify for our
14 books and records.

15 THE COURT: I'm not sure how to say goodbye but I
16 think we're done with what you had to say. I didn't mean to
17 make light of what you said, it's just that you're on the phone
18 and nobody said anything and I think we're done with what you
19 had to say. Anything more?

20 MR. KADEN: I'll move on, then. Finally, although
21 Interactive has determined the cure amount under its contract
22 to, at least the amount scheduled by the debtors, which is
23 596,792 dollars and, I guess, six cents. We think it may be
24 more. However, since the debtors have already scheduled 596K
25 as an undisputed cure amount, we'd have to immediately pay this

1 as an undisputed cure without prejudice to Interactive's right
2 to argue after discussion. Hopefully we can reach a consensual
3 resolution but they will argue, post-closing, that additional
4 cure is required. And I want to make sure that that argument
5 is reserved under Mr. Miller's general postponement of cure
6 objections but also to clarify that any undisputed cure amount,
7 if we agree, as we believed in the 596,000 dollars will be
8 immediately paid as part of the closing.

9 THE COURT: I'm not going to say anything in response
10 to that. Whoever wants to respond, please do?

11 MS. GRANFIELD: Lindsee Granfield, Cleary Gottlieb
12 for Barclays Capital. The proposed order is providing that to
13 the extent -- well, that the cure amounts will be paid as soon
14 as practicable on the earlier of the consent of the party to
15 the cure amount on the schedule, the deemed consent of the
16 party because they don't object on October 3rd or after your
17 Court's determination of the cure amount after dispute.

18 So no, we can't agree that again another party wants
19 to have its cake and eat it too, that if there's a dispute
20 about the amount we either reach agreement, get paid as soon as
21 practicable or Your Honor will determine it.

22 THE COURT: That sounds perfectly consistent with due
23 process and I think everybody can agree that that's so, even
24 this briefly into the case. There'll be an opportunity to be
25 paid an amount that you agree. If you don't object you'll get

1 the deemed amount and if there's a problem there'll be a
2 hearing.

3 MR. KADEN: Fair enough, Your Honor. Thank you.

4 If I can move on now to my second client, which is
5 125 High Street.

6 THE COURT: What time zone are you in?

7 MR. KADEN: What time zone?

8 THE COURT: Yes.

9 MR. KADEN: I'm in the Eastern Time Zone.

10 THE COURT: Okay. Well, then you know how late it
11 is. I wish you'd expedite -- I don't mean anything by this but
12 we've really been going for a long time. It's a very, very hot
13 courtroom and we have a tremendous amount of work to do before
14 we can all go to sleep. So I really ask you to limit your
15 remarks if you can.

16 MR. KADEN: Okay, I will. I'll get to the main
17 issues and many of them have already been raised. So I will
18 try to be as brief as possible and I apologize and I appreciate
19 the Court's indulgence.

20 I would like the same confirmation that the prior
21 landlord has asked for, that the rights of my landlord at 125
22 High, under the lease, with respect to any sublease back to the
23 debtors are preserved consistent with the terms of the lease.

24 I think it was already confirmed on the record for
25 the other landlord but I want to make sure that that same

1 confirmation as to that the lease says what it says with
2 respect to treatment of subleases and that there's no attempt
3 here being made to overrun the provisions of the lease with
4 respect to subleasing, if there is a sublease contemplated on
5 this matter.

6 MS. GRANFIELD: With all due respect to counsel, I
7 have no idea what your lease says or what its terms are. And
8 so I can't confirm to you anything at this moment. But I can
9 confirm that we'll have to live with what 365 gives us in terms
10 of rights. That's all I can give you at this moment.

11 MR. KADEN: Fair enough.

12 THE COURT: Does that do it?

13 MR. KADEN: The same confirmation as to year-end
14 reconciliations with respect to 125 High, if the year
15 interrupts, to the extent that they're payable under the lease,
16 that those provisions will be honored as well?

17 THE COURT: Counsel, let me tell you what I think is
18 happening here, and you can't see what's going on in the
19 courtroom, which puts you at a disadvantage. You're doing a
20 really effective job of being tenacious and pressing your
21 points but I don't think you're winning them. I think that all
22 you're doing is getting reservations of rights, which is about
23 as much as you can expect at this hour.

24 And I'm also going to acknowledge, both to you and to
25 everybody in the courtroom that I'm getting tired. I've been

1 on the bench for a long time and I've been trying to
2 concentrate in a very important hearing and I think we have to
3 stop talking about these issues.

4 MR. KADEN: Fair enough, Your Honor. I apologize.

5 THE COURT: There's no reason to apologize. This is
6 an important hearing and you have clients to represent. I'm
7 just telling you that if you were watching what's going on you
8 would realize that you're losing me. I can't pay attention to
9 what you're saying and I'm trying to.

10 MR. KADEN: Okay. So then with that I will take your
11 cue and close my arguments there.

12 THE COURT: Thank you.

13 MR. HAYES: Your Honor, one more telephone objection
14 that'll take about thirty seconds.

15 THE COURT: Where are you?

16 MR. HAYES: My name is Dion Hayes, I'm with
17 McGuireWoods. I represent Toronto Dominion Bank, also Eastern
18 Time Zone.

19 THE COURT: Are you in New York City?

20 MR. HAYES: No, sir.

21 THE COURT: Okay, then I'll listen to you.

22 MR. HAYES: We have significant claims, Your Honor,
23 against Holdings LBI and certain LBI subsidiaries. We filed,
24 essentially, a joinder in Mr. Bienenstock's objection that he
25 filed on behalf of RBS. We join in his comments that he

1 articulated earlier with respect to paragraphs 4 and 10 of the
2 order. I haven't seen the order unfortunately but as it was
3 described in the hearing earlier, we share his objections to
4 those provisions. Thank you, Judge.

5 THE COURT: Okay. Thank you.

6 MR. ROESCHENTHALER: Your Honor, this is Mike
7 Roeschenthaler, also for McGuireWoods in the Eastern Time Zone.
8 I represent Access Data Corp and CNX Gas Company. Briefly,
9 Your Honor, Access Data Corp, based on the representations made
10 by counsel for the debtor about asserting late claims or
11 rejection of claims, at this point we're fine with that,
12 subject to our right to assert those claims because we -- the
13 claim of Access Data is about ten times what has been listed by
14 the debtor.

15 And for CNX Gas Company, our claim related to EU
16 Energy and based on representations by the debtor earlier, that
17 is no longer part of the sale. If that's the case, then we
18 have no objection to the sale going forward.

19 THE COURT: Thank you.

20 MR. ROESCHENTHALER: Thank you, Your Honor.

21 THE COURT: Is there anyone else on the phone? Okay.
22 Then you can mute your lines.

23 It's now 11:30 and what I said I meant, I'm kind of
24 exhausted. But I think that it's also important for us to get
25 through this. I recognize that many of the people who are

1 sitting out there have not eaten and haven't had a break in a
2 while and I think due process also includes no cruel and
3 inhuman punishment. And so I think that it may be timely,
4 before I hear from the debtors and/or also from the purchaser,
5 to take a fifteen minute break so everybody can refresh
6 themselves a little bit.

7 So since it's already as late as it is, it might as
8 well be a little bit later and let's take a fifteen minute
9 break and I'll see you at 11:45.

10 (Recess from 11:30 till 11:45 p.m.)

11 THE COURT: Be seated, please. Mr. Miller?

12 MR. MILLER: Good evening again, Your Honor. And
13 given the lateness of the hour, Your Honor, I expect to be
14 exceedingly brief, Your Honor. There have been an awful lot of
15 objectors who have stood at the lectern and it's, sort of, hard
16 after listening to twenty odd people, to remember all of the
17 comments that were made and objections that were made. But
18 there's one basic theme, Your Honor, that has gone through the
19 statements by Mr. Golden, Mr. Rosner and some others. That
20 apparently there is the ability to stop everything, take two or
21 three weeks or maybe two or three months, while we explore
22 every possible alternative. And there is no recognition, Your
23 Honor, that we have a patient that is hemorrhaging on the
24 operating table and there is no intensive care ward for this
25 patient.

1 Things have happened, Your Honor, in the last two
2 days. First of all, we have a SIPC proceeding, Your Honor. A
3 trustee has been appointed for SIPC and the assets of LBI are
4 under the jurisdiction of that proceeding. They're gone, Your
5 Honor. And as it was pointed out in the testimony today, there
6 are 639,000 accounts with a value of something like 138 billion
7 dollars that are sitting now waiting transfer. And if this
8 sale doesn't go through, Your Honor, those accounts are going
9 to be stuck. And they're going to be stuck for months and
10 months.

11 Mr. Golden says that he protects the interest of
12 creditors. I would say, Your Honor, the debtor is protecting
13 the interest of creditors. If this transaction doesn't go
14 through, Your Honor, LBI is out of business. It already is --
15 will be in a SIPC liquidation proceeding.

16 There is no money at LBHI. The DIP loan will become
17 due, 200 million dollars, as payable. Look what happened
18 yesterday, Your Honor. The CME closed us out and we took a
19 loss of one billion, six hundred million dollars. This
20 administration is finished if this transaction is not
21 completed, Your Honor.

22 It's a shame, Your Honor, that the 7,000 people who
23 are waiting for transfers today in various computer points
24 throughout the country, did not get what they expected to. And
25 I'm not being critical of anybody, Your Honor; everybody has a

1 right to express their views. But we are in a situation in
2 which we have a fragile asset that can't. This is not a case
3 where you can sit and go out and explore every single
4 opportunity. And in that connection I might say, Your Honor,
5 that for months, certainly going back to the collapse of Bear
6 Sterns and before that, Lehman has been deleveraging. It has
7 been participating in every effort to deleverage its balance
8 sheet.

9 It got down to -- let me call it the final round,
10 where there only were two possibilities: the Bank of America
11 and Barclays. And the Bank of America went off and did
12 something else. Barclays -- that transaction was unable to be
13 consummated. So in the exercise of good business judgment,
14 management and the board of directors turned to get the best
15 transactions they could get in the limited time.

16 And, Your Honor, there aren't many candidates that
17 could do this. You needed somebody with the kind of capital,
18 credit standing of Barclays. There aren't that many people out
19 there. And you can't go around and cherry pick these assets,
20 Your Honor. This is an integrated operation.

21 So what is happening, Your Honor, we are protecting
22 the customers. There's testimony on the record, Your Honor, as
23 to what the consequences would be if this transaction doesn't
24 go forward. Both Mr. Ridings and Mr. McDade have indicated
25 there won't be anybody in the building. If there's no

1 assurance of an ongoing operation for the LBI employees, which
2 are most of the employees in 745 Seventh Avenue, they're not
3 going to stay there, Your Honor. These are people who have
4 bills that they have to meet, they need employment. They need
5 some element of certainty. They're all expecting, and I'm not
6 putting any pressure on Your Honor, they're all expecting that
7 Your Honor will rule --

8 THE COURT: The pressure is already there, Mr.
9 Miller.

10 MR. MILLER: I'm sorry?

11 THE COURT: The pressure is already there.

12 MR. MILLER: Thank you, Your Honor.

13 THE COURT: Not from you.

14 MR. MILLER: No, no. I was looking for that woman.
15 There is pressure on everybody, Your Honor. I mean, I was just
16 saying to somebody, here we are sitting in a courtroom at 5
17 minutes after 12, and we've been here for a long time, and that
18 is evidence of the concern that everybody has. And I
19 understand the issues, Your Honor. As we said on the very
20 first day, this is an extraordinarily exceptional case. There
21 is so much at stake here. And if we miss this opportunity we
22 are talking about a wholesale liquidation with all of the
23 consequences that come out of that liquidation. And people can
24 speculate as to what's going to happen.

25 I mean, I was a little shocked at Vanguard, who

1 happens to be a competitor of Neuberger, saying don't close
2 this. It'll be a good thing for the marketplace, for somebody
3 maybe. So I think that argument, Your Honor, just doesn't
4 carry water.

5 Now I would turn, just for a minute, Your Honor, to
6 the LBIE thing, which is confusing this whole matter. I point
7 out, Your Honor, LBIE went into administration before the
8 Chapter 11 case was filed. And PWC froze all transactions
9 immediately and it became the administrator. So those
10 transactions were frozen.

11 Now, what we're talking about, Your Honor, is eight
12 billion or five billion, whatever it might be, Your Honor, that
13 was a cash sweep. Cash, we're not transferring any cash to
14 Barclays, that's out of the agreement. So if Mr. Rosner or
15 somebody else has a claim, they can assert a claim. It has
16 nothing to do with this transaction.

17 And I would also point out, Your Honor, that PWC as
18 the administrator is not opposing the sale. In fact, they're
19 supporting the sale. They're just reserving their rights and
20 they should reserve their rights. If they have a claim, this
21 is all going to be investigated. But we have to look at the
22 bigger picture, Your Honor, what happens if we don't close this
23 transaction. And Mr. Ridings testified, Mr. McDade testified
24 as to the consequences that will affect these estates. We
25 cannot reverse what has already happened.

1 And in the short period from Wednesday to Friday,
2 notwithstanding that Your Honor approved the sale procedures,
3 we lost the confidence of the market. And if you don't approve
4 this transaction, Your Honor, LBI is finished as an operating
5 business. It will not add any value to anybody. And all we
6 will have left, Your Honor, is a winding down estate and
7 holdings. And if that building is empty, Your Honor, it won't
8 be worth 900 million dollars because that's the nature -- that
9 appraisal that we got assumed a value with the building in use.

10 So the dangers here, Your Honor, are extraordinary.
11 This is a good transaction, Your Honor. We spent a lot of time
12 listening to landlords. All of those issues, Your Honor, are
13 minor and will be resolved in one way or the other. Either
14 Your honor will decide them or there will be mutual
15 arrangements and agreements among the parties.

16 The drafting of the order, I think, Your Honor, if we
17 all sit down in good faith we will come up with an order. I
18 think we will come up with an order tonight if Your Honor were
19 to approve this transaction.

20 THE COURT: I'm prepared to stay here for as long as
21 it takes if you're prepared to stay here for as long as it
22 takes.

23 MR. MILLER: Your Honor, I can't think of a better
24 place to be.

25 THE COURT: Do you want to order pizza? How do you

1 want to nourish yourself between now and the entry of the
2 order?

3 MR. MILLER: With pepperoni?

4 THE COURT: Whatever you want.

5 MR. MILLER: I agree with Mr. Bienenstock -- maybe
6 let me rethink that. Your Honor, I would stay without food. I
7 think that's a good thing. And I would lock all of the
8 latrines. I'm sorry; I withdraw that remark, Your Honor.

9 THE COURT: Unfortunately, it's on the record of this
10 proceeding.

11 MR. MILLER: And, Your Honor, the proceeds of the
12 sale, the 250 million dollars, is going to the SIPC trustee,
13 the one billion 290 million dollars is going to the estate.
14 There is a creditors' committee. Those proceeds are safe.
15 Hopefully, we're going to go into the more conventional
16 procedures of Chapter 11.

17 I don't want to use the melting ice cube. It's
18 already half melted, Your Honor. The steps have had happened,
19 the things that have happened since Wednesday, make it
20 imperative that this sale be approved. In the interest of all
21 of the stakeholders, including Mr. Golden's clients, they will
22 benefit by this, Your Honor, because if the alternative
23 happens, there will be very little to distribute to creditors,
24 if anything.

25 So we submit to Your Honor that this sale should be

1 approved and should be approved tonight. And we should get the
2 orders entered and get the transfers done before there's any
3 other prejudice and harm. Thank you, Your Honor.

4 THE COURT: Thank you, Mr. Miller.

5 MS. GRANFIELD: Really brief, Your Honor, because I
6 won't tread over any ground that Mr. Miller just went over.
7 The importance, if Your Honor is so disposed to approve the
8 transaction of staying here, getting the order done and getting
9 it entered tonight, my client wanted me to express to you the
10 importance is really not only in terms of the operations, the
11 moving of the money, the preserving of the value for this
12 estate, but the importance in terms of staying here and get it
13 done tonight is really with respect to the employees who we've
14 already heard many times have really had a horrible week. They
15 have had a bit of hope in terms of being able to return to a
16 more business as usual. And we're really concerned if they
17 don't wake up tomorrow and see that not only has it been
18 approved but the order's been entered and we're moving forward
19 towards closing.

20 Just generally, with respect to the objections,
21 Barclays Capital cannot pay out the sums that have been put on
22 the record tonight and subject itself to collateral attack.
23 It's not doing this transaction to paint a bullseye on its back
24 for every subsidiary creditor, landlord, fund that wants to
25 figure out who's a deep pocket, oh, Barclays is doing this deal

1 so it's one of the three or four deep pockets that could have
2 and so we're going to reward by miring it in collateral
3 litigation. If there's really any chance of that, it won't
4 happen. And this will all be for naught. So we do have to
5 keep our eye on that ball.

6 And then finally, Your Honor, in the proffer of some
7 of the testimony tonight, and this had been said before, and it
8 may have been the belief of the parties who had said it, but
9 it's important with respect to Barclays and its relationship
10 with regulators in the U.K. that we wanted to make a pointed
11 statement that it has not only been the U.S. regulators that
12 have really gone above and beyond to try and facilitate this
13 transaction. But the regulators in the United Kingdom have
14 done so as well. And there was speculation, really, that maybe
15 the U.K. regulators had some to do with not having the prior
16 transaction that was worked on last week come to fruition. And
17 it turns out that's not the case. It really was not a
18 regulatory issue but just a question of the structure of the
19 transaction would have required Barclays to have a
20 shareholder's vote in order to do the transaction and that just
21 was not going to happen with the precipitous terrible things
22 that were happening at the time. And so, we just wanted to
23 correct the record with respect to that. And with that, I'll
24 turn it over to others.

25 MR. BIENENSTOCK: May I respond for a moment, Your

1 Honor?

2 THE COURT: Yes, you may.

3 MR. BIENENSTOCK: I just want to point out that,
4 number one, we all understand the importance of the
5 transaction. And it's very easy for a party sponsoring it to
6 say, and I won't do it unless you give me something illegal, so
7 give it to me, Judge. I'd like to point Your Honor to some
8 evidence Your Honor admitted, the contract. Nowhere in that
9 contract does it say they need an order that's free and clear
10 of successor liability from creditors of non-debtor
11 subsidiaries. Nowhere. This is just overreaching and gambling
12 that Your Honor feels this is so important that you'll do
13 something illegal so they'll close tonight. Thanks.

14 THE COURT: It's my job to do what the law permits in
15 the exercise of my discretion. This week, more than any other
16 week since I was appointed to the bench, I have felt the
17 awesome power of this job. And it's now Saturday morning.
18 I've given a lot of thought the objections. I reviewed each
19 one that I could get. They were flying in this afternoon one
20 after another. And I categorized them in my mind and
21 considered carefully whether it was permissible for me as a
22 judge in this district to approve a transaction this momentous
23 on such an extraordinarily fast schedule. And I gave
24 consideration to the due process considerations that have been
25 articulated in objections both orally and in writing. And I

1 have concluded that this is really not a question of due
2 process being denied. This is a question of due process being
3 pursued in good faith by all parties to the transaction, even
4 the objectors. It is a testament to the importance of this
5 transaction that this courtroom is still packed. I have no
6 idea what's going on in the overflow rooms. This is not an
7 ordinary Chapter 11 case.

8 This is not simply approving the transaction because
9 Mr. Miller is putting pressure on me to do so. This is not
10 approving the transaction because I know it's the best
11 available transaction. I have to approve this transaction
12 because it's the only available transaction.

13 I believe that one of the remarkable aspects of our
14 Bankruptcy Code, as it has evolved, is its remarkable
15 flexibility to different circumstances. The lawyers who are
16 appearing before me this evening are truly among the best and
17 the brightest in the field. And some have participated in the
18 evolution of bankruptcy as a field, nationally and
19 internationally. We must close this deal this weekend not
20 because the markets demand it, although that's certainly a part
21 of it. Lehman Brothers became a victim. In effect, the only
22 true icon to fall in the tsunami that has befallen the credit
23 markets. And it saddens me. I feel that I have a
24 responsibility to all the creditors, to all of the employees,
25 to all of the customers and to all of you. Arguments have been